

# **City of Newton**

## **North Carolina**

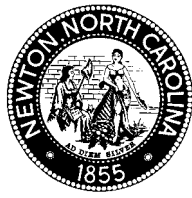


**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended**  
**June 30, 2004**

**CITY OF NEWTON, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PREPARED BY  
CITY OF NEWTON FINANCE DEPARTMENT



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# CITY OF NEWTON, NORTH CAROLINA

## Comprehensive Annual Financial Report Table of Contents Year Ended June 30, 2004

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	<u>Exhibit No.</u>	<u>Page No.</u>
<b>Introductory Section:</b>		
Letter of Transmittal		1-5
GFOA Certificate of Achievement		6
Organizational Chart		7
List of Principal Officials		8
<b>Financial Section:</b>		
<i>Independent Auditors' Report</i>		9-10
<i>Management's Discussion and Analysis</i>		11-22
<i>Basic Financial Statements:</i>		
Government-wide Financial Statements:		
Statement of Net Assets	1	23
Statement of Activities	2	24
Fund Financial Statements:		
Balance Sheet - Governmental Funds	3	25
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4	26
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	5	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	28
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	7	29
Statement of Net Assets - Proprietary Funds	8	30-31
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	9	32
Statement of Cash Flows - Proprietary Funds	10	33-34
Notes to the Financial Statements		35-58

---

# CITY OF NEWTON, NORTH CAROLINA

## Comprehensive Annual Financial Report Table of Contents - Continued Year Ended June 30, 2004

---

	<u>Exhibit No.</u>	<u>Page No.</u>
<b>Financial Section (continued):</b>		
<i>Required Supplementary Information:</i>		
Schedule of Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress	A-1	59
Schedule of Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contribution	A-2	60
Schedule of Law Enforcement Officers' Special Separation Allowance - Notes to Required Schedule	A-2	60
<i>Combining and Individual Fund Financial Statements and Schedules:</i>		
<i>Governmental Activities:</i>		
Major Funds:		
General Fund:		
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	B-1	61-68
Non-Major Funds:		
Combining Balance Sheet	C-1	69
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	C-2	70
Downtown Facade Improvement Capital Project Fund:		
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	C-3	71
General Capital Projects Funds:		
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	C-4	72

---

## CITY OF NEWTON, NORTH CAROLINA

### Comprehensive Annual Financial Report Table of Contents - Continued Year Ended June 30, 2004

---

	<u>Exhibit No.</u>	<u>Page No.</u>
<b>Financial Section (continued):</b>		
<i>Business-type Activities:</i>		
Enterprise Funds:		
Water and Wastewater Fund:		
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	D-1	73-74
Water and Wastewater Fund Capital Projects - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP):		
Water and Wastewater Capital Projects	D-2	75
Electric Fund:		
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	D-3	76-77
Electric Fund Capital Projects - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP):		
Electric Capital Projects	D-4	78
Internal Service Fund:		
Health Insurance Fund:		
Schedule of Revenues and Expenses - Budget and Actual	D-5	79
<i>Capital Assets:</i>		
Capital Assets Used in the Operation of Governmental Funds:		
Comparative Schedule by Source	E-1	80
Schedule by Function and Activity	E-2	81-82
Schedule of Changes by Function and Activity	E-3	83
<i>Other Schedules:</i>		
Schedule of Ad Valorem Taxes Receivable	F-1	84
Analysis of Current Tax Levy	F-2	85

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# CITY OF NEWTON, NORTH CAROLINA

## Comprehensive Annual Financial Report Table of Contents - Continued Year Ended June 30, 2004

---

	<u>Table No.</u>	<u>Page No.</u>
<b>Statistical Section (Unaudited):</b>		
Government-wide Expenses by Function	1	86
Government-wide Revenues	2	87
General Fund Expenditures by Function	3	88
General Fund Revenues by Source	4	89
General Fund Tax Revenues by Source (1)	5	90
Property Tax Levies and Collections and Credits	6	91
Assessed Valuation of Property	7	92
Property Tax Levies and Rates - Direct and Overlapping Governments	8	93
Principal Taxpayers	9	94
Computation of Legal Debt Margin	10	95
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita	11	96
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures	12	97
Computation of Direct and Overlapping Bonded Debt - General Obligation Bonds	13	98
Demographic Statistics	14	99
Property Value, Construction and Bank Deposits	15	100
Miscellaneous Statistics	16	101
<b>Compliance Section:</b>		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		102-103
Report on Compliance with Requirements Applicable to each Major State Program and Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act		104-105
Schedule of Findings and Questioned Costs	G-1	106-107
Corrective Action Plan	G-2	108
Summary Schedule of Prior Audit Findings	G-3	109
Schedule of Expenditures of Federal and State Awards	G-4	110

## **INTRODUCTORY SECTION**

- 
- **Letter of Transmittal**
  - **GFOA Certificate of Achievement**
  - **Organizational Chart**
  - **List of Principal Officials**
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## **Letter of Transmittal**

The Honorable Mayor, Members of the  
City Council and the Citizens of the  
City of Newton, North Carolina

October 19, 2004

The Comprehensive Annual Financial Report (CAFR) of the City of Newton, North Carolina, for the fiscal year ended June 30, 2004, is hereby submitted. This report consists of management's representations concerning the finances of the City of Newton. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Newton has established a comprehensive internal control framework that is designed to protect the city's assets from loss, theft, or misuse and to compile reliable information for the preparation of the City of Newton's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The cost of internal controls should not outweigh their benefits. The City of Newton's internal controls have been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Newton's financial statements have been audited by Lowdermilk Church & Co., L.L.P., Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Newton for the fiscal year ended June 30, 2004, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Newton's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The financial statements have been prepared in compliance with applicable requirements of the General Statutes of North Carolina and are consistent with the standards and guidelines recognized for governmental accounting and financial reporting contained in both Audits of State and Local Governmental Units, an audit guide prepared by the Committee of Governmental Accounting of the American Institute of Certified Public Accountants (AICPA), and Government Auditing Standards, issued by the Comptroller General of the United States. Among the other resources used in the preparation of the financial statements, the Finance Department Staff has given particular attention to Governmental Accounting, Auditing, and Financial Reporting (GAAFR) issued by the Governmental Accounting Standards Board (GASB) pronouncements.

The Single Audit Act of 1984 established requirements for state and local governments that receive federal assistance. The audit requirements have also been adopted by the State of North Carolina for state grants. Information related to this single audit, including the schedule of federal and state financial awards, schedule of findings and questioned costs, auditors' report on internal control and compliance with laws and regulations, and other schedules and exhibits necessary to satisfy the requirements of the single audit, are included in the single audit section.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City of Newton's MD&A is presented immediately following the report of our independent auditors.

The CAFR is divided into four sections: the introductory, financial, statistical and single audit. The introductory section, which is unaudited, includes this letter of transmittal and information about the organization and principal officers of the City of Newton. The financial section is composed of the independent auditors' report, management's discussion and analysis, government-wide financial statements, more detailed fund statements and schedules and other supplementary financial data. The statistical section, which is unaudited, includes selected financial and general information, much of which is presented on a multi-year basis. This report includes all funds of the City of Newton. The compliance section reports on the government's internal controls and legal requirements, with special emphasis on internal controls involving the administration of federal and state awards.

## **PROFILE OF THE GOVERNMENT**

The City of Newton, founded in 1843 and incorporated in 1855, is located in Catawba County in the western part of the Piedmont area of North Carolina, 39 miles northwest of Charlotte and 10 miles southeast of Hickory. The City covers approximately thirteen square miles and has a population of 12,939. Newton serves as the county seat of Catawba County. The City has a council/manager form of government.

The City Council is comprised of a mayor and six council members who are elected to staggered terms on a nonpartisan basis in a city-wide election. The City Council is the policy-making and legislative authority of the City. They are responsible for adopting the annual budget, approving economic development, zoning and planning issues, and other matters related to the health and welfare of the City. The Council makes appointments to various boards and commissions, and appoints the City Manager. The City Manager is the Chief Executive Officer and is responsible for enforcement of laws and ordinances, delivery of services, implementing policies, managing daily operations and appointing department heads.

The City provides a full range of services for its citizens, including planning and zoning, solid waste collection, street maintenance, parks and recreation activities, and police and fire protection. In addition to these general government activities, the City provides and maintains water, sewer and electrical utilities for the benefit of its citizens. These utilities are included in the reporting entity. The City also extends financial support to certain boards, agencies, and commissions to assist in their efforts in serving citizens. Among these are the Catawba County Arts Council, Catawba County Library, and the Piedmont Wagon, a transportation system serving the cities of Hickory, Conover and Newton. Because City allocations do not constitute a major portion of their revenue, and because the City has no authority to designate their management, none of these organizations have been included in this report.

In government, much more than business, the budget is an integral part of a unit's accounting system and daily operations. An annual or project budget ordinance, as amended by the governing body, creates a legal limit on spending authorization. For the City of Newton, annual budgets are adopted for the General, Special Revenue, and Enterprise Funds. Financial plans are adopted for Internal Service Funds. Appropriations are made at the departmental level (i.e. governing body, administrative, finance, etc.) for the annually budgeted funds. Project and grant ordinances (multi-year budgets) are adopted for all Special Revenue Funds and all Capital Project Funds. Encumbrances outstanding at June 30, 2004 are reported as reservation of fund balance.

In accordance with state law, the City's budget is prepared on the modified accrual basis, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenues are recorded when they are both measurable and available. Expenditures are recorded when a fund liability is incurred, except for

unmatured principal and interest on long-term debt and certain compensated absences. Governmental Fund types, such as the City's General Fund, Special Revenue Funds, and Capital Project Funds, are reported on the modified accrual basis in the fund financial statements. The City's Proprietary Funds are reported on the full accrual basis, i.e. revenues are recorded when earned and expenses are recorded when incurred, in the fund financial statements.

## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Newton operates.

**Local Economy** - The City of Newton continues to benefit from its proximity to the Charlotte and Hickory Metropolitan Areas. The economy of the area has experienced recent shifts in terms of its traditional base of furniture, textile and cable manufacturing. Those core employment centers had, until the latter part of the year 2000, allowed the area's economy to remain stable. Due to various structural changes in those industries as well as national events such as the 9-11 terrorist attack, the local unemployment rate went from one of the lowest in NC at 1.92% to one of the highest at 9.4% in a very short period of time. A concerted effort by local entities, including the Catawba County Economic Development Corporation and the City of Newton, to address the problems has resulted in a remarkable turnaround in a short timeframe. A plan was developed and committed to with funding to market the area as more than a manufacturing center. The focus has been on non-manufacturing sectors, retirement communities, research and development related to health care as well as a manufacturing recruitment effort targeted at a variety of industries including automotive, pharmaceuticals, and plastics. These newly focused efforts have resulted in economic development activity accelerating throughout the City at a much faster pace than that of recent years. The September, 2004 unemployment rate was 5.6% compared to 8.1% for September, 2003. One of the most significant announcements came in March of 2004, when ZF Lemforder, a German company, announced plans to locate a manufacturing facility in the Danner Industrial Park in Newton. The new plant will employ 200 people and will have plant, machinery and equipment valued at \$47 million dollars.

Recently several older manufacturing facilities and accompanying land have become available for redevelopment. These recent developments are proving to make the County and City's efforts at business recruitment easier. The availability of a skilled and willing labor force when added to the competitive advantages of the area indicates a bright future for a continually diversifying employment base.

The City has begun various projects to position itself for the future. Some of the more significant projects are: a \$4.5 million upgrade to the city reservoir and new dam at the Jacob Fork raw water intake which will provide more water storage, an upgrade to the Clark Creek Wastewater Treatment plant, the extending of sewer to G & G Lumber Company, a \$20 million wood manufacturing plant as well as acreage surrounding the new plant. Additionally at this site, the county is planning an industrial park. The City also has entered into an agreement to extend water to the Town of Taylorsville and to Energy United Water Corporation in Alexander County. In addition to the hard infrastructure of water and sewer lines, the City has also invested in quality of life amenities such as a new greenway which is being partially funded with a State PARTF grant, renovation of the Central Recreation Center, and the Newton Recreation Center. The City is positioning itself for improved customer service by investing in new technology for police cars, GIS and GPS related to infrastructure management.

The City is currently working with a developer to redevelop the 70 acre Broyhill Furniture site as an industrial park that has the potential to add 600,000 square feet of new high quality space that should be attractive to manufacturing, warehouse and distribution companies. The City is working with the Catawba County Economic Development Commission (EDC) to assemble a partnership with investors to develop the Newton Corporate Center; a Greenfield site of 400 acres located near the interchange of NC Hwy 10 West and US 321 freeway.

The City, in conjunction with Electricities and the Sanford Holshouser Business Development Group, has completed a Target Industry marketing plan that will allow the City to focus on companies that have the best potential for attraction to Newton. Implementation of this plan should reap significant benefits in terms of jobs, tax base and utility usage, all strengthening the City's economic viability.

**Long-term Financing Planning** - The City has identified its immediate capital improvement needs. Preliminary estimates indicate a projected timetable of three to five years with projected total costs to the City of Newton of approximately \$16,750,000. These include improvements to the raw water intake facility, replacement of a weir, dredging of the city lake, extending water to serve Energy United and the City of Taylorsville, extension of sewer lines to serve the City of Conover, wastewater plant improvements, new cemetery infrastructure improvements and improvements to the public works facility to meet storm water regulations. Other improvements still under consideration include a new facility to house either the main fire station individually or a public safety complex to house both police and fire, a new park along the Jacob Fork river, downtown master plan improvements and recreation master plan improvements.

**Cash Management Policies and Practices** - Cash temporarily idle during the year was invested in certificates of deposits and the North Carolina Capital Management Trust. The maturities of the investments range from 30 days to 12 months, with an average maturity of 120 days. The average yield on investments was 1.4%. The low rates of return are at their lowest levels in forty years. Contributing to this are the events of September 11, 2001, which further deteriorated a weak national economy. Stocks plunged, investors retreated, the airline industry suffered, and the economy never regained the momentum to recover from the first national recession since 1991.

**Risk Management** - The City utilizes commercial insurance carriers to provide coverage for the majority of its insurable risks. Along with this insurance coverage the City has instituted an ongoing safety program with each department establishing a safety manual relating specifically to that department. Each employee is trained on the safety requirements and specific protective requirements for the job. Safety meetings, with specific safety training, are held in every department monthly.

## **PENSION AND OTHER POST-EMPLOYMENT BENEFITS**

**Local Government Employees' Retirement System** – The City of Newton contributes to the statewide Local Government Employees' Retirement System (LERS), a cost-sharing, multiple employer, defined benefit plan administered by the State of North Carolina. LERS provides retirement and disability benefits to plan members and beneficiaries. Plan members are required to contribute 6 percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. The rate for employees not engaged in law enforcement is 5.38 percent and for law enforcement officers is 5.23 percent, of annual covered payroll. The plan is currently funded at 99% of its actuarial liability, as of December 31, 2001, the date of the most recent actuarial valuation.

**Law Enforcement Officer's Special Separation Allowance** – The City of Newton administers a public employee retirement system (the "Separation Allowance"), a single-employer, defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. All full-time law enforcement officers of the City are covered by the Separation Allowance. The annual required contribution was determined through an actuarial valuation as of December 31, 2003.

**Post-employment Benefits** – The City of Newton provides certain classes of retired employees with health insurance benefits. These benefits continue until the retiree becomes eligible for Medicare benefits. As of the end of the fiscal year, there were 4 employees receiving these benefits. The City has elected to finance these payments on a pay-as-you go basis. As allowed under generally accepted accounting principles, the City has not reported a liability in connection with these payments in the financial statements. Additional information concerning the pension obligation of the City of Newton can be found in the Notes to the Financial Statements.

## AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newton for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the nineteenth consecutive year that the City of Newton has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGMENTS

The preparation of this comprehensive financial report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We also acknowledge the extensive assistance provided by the accounting firm of Lowdermilk Church & Co., L.L.P. and appreciate their assistance in preparing this report.

In closing, we would like to express our appreciation to the Mayor and City Council for their leadership, interest, and support in planning and conducting the financial operations of the City in a responsible and progressive manner. It is a distinct pleasure to be associated with these individuals who appreciate and respect the principles of financial and budgetary restraint that prevails in the City of Newton.

Respectfully submitted,



Edward F. Burchins  
City Manager



James A. Baker  
Finance Director

**GFOA Certificate of Achievement**

**CITY OF NEWTON  
ORGANIZATIONAL CHART**



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**CITY OF NEWTON, NORTH CAROLINA**

**LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2004**

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**CITY COUNCIL**

ROBERT A. MULLINAX  
Mayor

ROY A. JOHNSON

ALBERT GAITHER

H. TOM ROWE  
Mayor Pro Tem

THOMAS A. DIXON

WAYNE DELLINGER

ANNE STEDMAN

**CITY ADMINISTRATION**

EDWARD F. BURCHINS  
City Manager

DAVID A. DIAL  
Police Chief

KEVIN L. YODER  
Fire Chief

GLENN J. PATTISHALL  
Planning Director/Asst. City Manager

JAMES A. BAKER  
Finance Director

RITA K. WILLIAMS  
City Clerk

MARTIN D. WILSON  
Public Works/Utilities Director

TERESA B. LAFFON  
Personnel Director

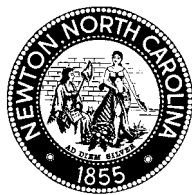
SANDRA A. WATERS  
Parks and Recreation Director

LARRY PITTS  
City Attorney

## **FINANCIAL SECTION**

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- **Independent Auditors' Report**
  - **Management Discussion and Analysis**
  - **Basic Financial Statements**
  - **Notes to the Financial Statements**
  - **Required Supplementary Information**
  - **Combining, Individual Fund Statements  
and Schedules**
-



**Lowdermilk Church & Co., L.L.P.**  
*Certified Public Accountants*

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121 N. Sterling Street  
Morganton, North Carolina 28655  
Phone: (828) 433-1226  
Fax: (828) 433-1230

**Independent Auditors' Report**

To the Honorable Mayor and  
Members of the City Council  
City of Newton, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, North Carolina, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Newton's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, North Carolina as of June 30, 2004, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2004 on our consideration of the City of Newton's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Newton, North Carolina, taken as a whole. The combining and individual fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The other information in this report, designated as “Statistical Section” in the table of contents has not been audited by us and accordingly, we express no opinion on such information.

October 19, 2004

## **Management's Discussion and Analysis**

As management of the City of Newton, we offer readers of the City of Newton's financial statements this narrative overview and analysis of the financial activities of the City of Newton for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report.

### **Financial Highlights**

- The assets of the City of Newton exceeded its liabilities at the close of the most recent fiscal year by \$32,302,003 (net assets). Of this amount, \$5,293,889 (unrestricted net assets) may be used to meet the city's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$105,009.
- As of the close of the current fiscal year, the City of Newton's governmental funds reported combined ending net assets of \$7,684,170, an increase of \$515,120 in comparison with the prior year. Approximately 40.9% this total amount, \$3,146,362, is available for spending at the City's discretion (unreserved net assets).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,918,282, or 32.3% of total General Fund expenditures.
- The City of Newton's total debt increased by \$3,713,900 (29.1%), which includes unfunded law enforcement officers' pension liability and compensated absences liabilities required to be included in this report by GASB 34. The City's total indebtedness is \$16,489,752.
- The City's legal debt limit is \$68,820,588 (8 percent of assessed valuation) and the City's legal debt margin is \$53,056,725. The total legal indebtedness of the City is \$16,489,752, which represents 1.5% of assessed valuation.

### **Using the Financial Section of this Comprehensive Annual Financial Report**

The Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and compliance. The financial section of the report has three components: management's discussion and analysis, the basic financial statements, and required supplementary information.

## Required Components of Annual Financial Report

For the past 20 years, the primary focus of local government financial statements has been summarized by fund type information presented on a current financial resources basis. Governmental Accounting Standards Board Statement 34 (GASB 34) has modified this presentation by presenting two kinds of statements, each with a different picture of the City's financial operation. These statements focus on the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial health. The fund financial statements, which have been included in the past, focus on the individual components of City government and report the City's operations in greater detail than the government-wide presentations.

**Government-wide Financial Statements.** These statements present financial information about the City as a whole. When evaluating the City's overall financial health it is appropriate to present information to determine "Is the City as a whole better or worse off as a result of the current year's activities?" The Statement of Net Assets and the Statement of Activities provide a response to this question. These statements, prepared under the full-accrual basis of accounting, present information about all assets and liabilities of the City in a manner similar to the consolidated business statements of private companies. Under this basis, all of the current year's revenues and expenses are included regardless of when cash is received or paid.

The Statement of Net Assets reflects the City's net assets at the end of the fiscal year. The net assets of the City are the difference between assets: what the citizens own, and liabilities: what the citizens owe. Over time, increases or decreases in the City's net assets become an indicator in determining if the City's financial health is improving or declining. However, a comprehensive evaluation of the City's financial health should also include other non-financial information such as changes in the City's property tax base and the condition of the City's capital assets (roads, bridges, water, sewer and electric lines, etc).

The Statement of Activities reflects the changes in the City's net assets that occurred during the fiscal year. These changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Accordingly, revenues and expenses are reported for some items that will only result in cash flows in future fiscal years (i.e. uncollected property taxes and earned but unused vacation leave).

The government-wide financial statements are divided into two types of activities:

**Governmental Activities.** These activities of the City of Newton include general government, public safety, transportation, environmental protection, and cultural and recreational. These activities are principally supported by property taxes, sales taxes, and intergovernmental revenues.

**Business-type Activities.** The City of Newton charges fees to recover all or some of the costs associated with providing certain services. The City's water and sewer and electric services are reported here.

There are no component units of the City of Newton included in this report.

The government-wide financial statements are located on pages 23-24 of this report.

**Fund Financial Statements.** Experienced readers of governmental financial statements will find these financial statements most familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Newton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Newton can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Most of the City's basic services are reported in governmental funds that focus on how money flows in/out of the fund and balances remaining at year-end that are available for spending in future years. The narrower focus of the governmental funds allows the reader to compare the information presented for each fund with similar information presented for governmental activities in the government-wide financial statements. This comparison allows the reader to better understand the long-term impact of the City's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Newton maintains three individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements located on pages 69-70 of this report.

The City of Newton adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 25-29 of this report.

Proprietary funds. The City of Newton maintains two different types of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Newton uses enterprise funds to account for its water and wastewater services and for its electric distribution operation.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Newton's various functions. The City of Newton uses internal service funds to account for its insurance services.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Wastewater Fund and for the Electric Fund, which are considered to be major funds of the City of Newton. Conversely, the internal service fund is a single presentation in the proprietary fund financial statements. Individual fund data for the internal service fund is provided on page 79 of this report.

The City of Newton adopts an annual appropriated budget for its proprietary funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic proprietary fund financial statements can be found on pages 30-34 of this report.

Notes to the Financial Statements. The notes contain additional essential information necessary for the reader to gain a more complete understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-58 of this report.



Other Information. Along with the basic financial statements and accompanying notes, this report also presents certain required supplementary information related to the City of Newton's progress in funding the Law Enforcement Officers' Special Separation Allowance. Required supplementary information can be found on pages 59-60 of this report.

## Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of the City of Newton, assets exceeded liabilities by \$32,302,003 for the fiscal year ended June 30, 2004.

The largest portion of the City of Newton's net assets (81.2%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Newton uses its capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City of Newton's investment in its capital assets is reported net of related debit, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 5,700,801	\$5,018,649	\$ 6,590,712	\$ 6,479,725	\$12,291,513	\$11,498,374
Capital assets	<u>5,736,969</u>	<u>4,927,325</u>	<u>32,741,178</u>	<u>30,108,879</u>	<u>38,478,147</u>	<u>35,036,204</u>
Total assets	<u>\$11,437,770</u>	<u>\$9,945,974</u>	<u>\$39,331,892</u>	<u>\$36,588,604</u>	<u>\$50,769,661</u>	<u>\$46,534,578</u>
Long term liabilities outstanding	\$ 3,114,167	\$2,132,711	\$13,375,586	\$10,643,142	\$16,489,753	\$12,775,853
Other liabilities	<u>639,433</u>	<u>644,212</u>	<u>1,338,471</u>	<u>707,499</u>	<u>1,977,904</u>	<u>1,351,711</u>
Total liabilities	<u>\$ 3,753,600</u>	<u>\$2,776,923</u>	<u>\$14,714,057</u>	<u>\$11,350,641</u>	<u>\$18,467,657</u>	<u>\$14,127,564</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 3,764,819	\$3,391,032	\$22,470,306	\$20,640,402	\$26,235,125	\$24,031,434
Restricted	772,989	5,348	-	-	772,989	5,348
Unrestricted	<u>3,146,362</u>	<u>3,772,672</u>	<u>2,147,527</u>	<u>4,597,560</u>	<u>5,293,889</u>	<u>8,370,232</u>
Total net assets	<u>\$ 7,684,170</u>	<u>\$7,169,052</u>	<u>\$24,617,833</u>	<u>\$25,237,962</u>	<u>\$32,302,003</u>	<u>\$32,407,013</u>

An additional portion of the City of Newton's net assets, \$18,579, consisting of drug enforcement funds, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$3,127,783, may be used to meet the city's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Newton is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

## Financial Indicators and Ratios

The following financial indicators and ratios can be used to assist the reader in assessing the financial strength of the City of Newton. When used in conjunction with other financial information contained in this report, the City's financial strength becomes apparent.

**Working Capital** - is the difference between current assets and current liabilities. Sources of working capital are income from operating activities, sales of non-current assets or the issuance of long-term debt. Uses of working capital include losses from operating activities, purchase of non-current assets or retirement of long-term debt. The working capital of the City of Newton is \$4,030,839, which consists of \$3,616,553 from governmental activities and \$414,286 from business-type activities.

**Current Ratio** - is the ratio of total current assets to current liabilities. This ratio is an indicator of the City's ability to meet its short-term obligations, and is expressed as current assets divided by current liabilities. The City of Newton's current ratio is 1.9 on a city-wide basis, 3.3 for governmental activities and 1.1 for business-type activities. More simply stated the City has \$1.80 of current assets for each \$1.00 of current liabilities on a city-wide basis.

**Acid Test or Quick Ratio** - relates total current liabilities to cash, marketable securities and accounts receivable, "quick assets". This is an additional short-term liquidity measure providing an additional comparison with the current ratio. This is also expressed on a coverage basis. The City of Newton's quick ratio is 1.7 on a city-wide basis, 3.3 for governmental activities and 1.0 for business-type activities. Or, more simply stated the City has \$1.70 of "quick assets" for each \$1.00 of current liabilities on a city-wide basis.

**Days Cash and Investments in Reserve** - represents the number of days that normal operations of the City of Newton could continue with no revenue collections. The results of this ratio indicate that the City of Newton could operate 101 days on a city-wide basis, 195 days for governmental activities and 49 days for business-type activities.

**Total Liabilities to Net Assets** - this ratio, expressed as a percentage, compares the total obligations (liabilities) of the City of Newton to current equity (net assets). It represents the extent to which borrowing has been used to finance short-term operations. Total liabilities to net assets for the City of Newton is 57.2% on a city-wide basis, 48.8% for governmental activities and 59.8% for business-type activities.

**Total Liabilities to Total Assets** - this ratio compares the total obligations of the City of Newton to total assets. It is an indicator of the level of borrowing that has been used to finance operations of the City on a long-term basis. Total liabilities to total assets for the City of Newton is 36.4% on a city-wide basis, 32.8% for governmental activities, and 37.4% for business-type activities.

**Non-Current Liabilities to Total Assets** - this ratio compares the long-term debt of the City of Newton to total assets. It is another indicator of the long-term financial strength of the City. Non-current liabilities to total assets for the City of Newton is 27.0% on a city-wide basis, 19.2% for governmental activities and 29.3% for business-type activities.

**Days Receivable** - represents the number of days on average it took to collect accounts receivable. This number demonstrates the extent to which current operations are impacted by the collection of accounts receivable. This ratio is provided only for the business-type activities of the City of Newton, which consists primarily of utility accounts. Days receivable for business-type activities is 33 days for the City of Newton.

## Changes in Net Assets

A summary of the changes for year 2004 follows:

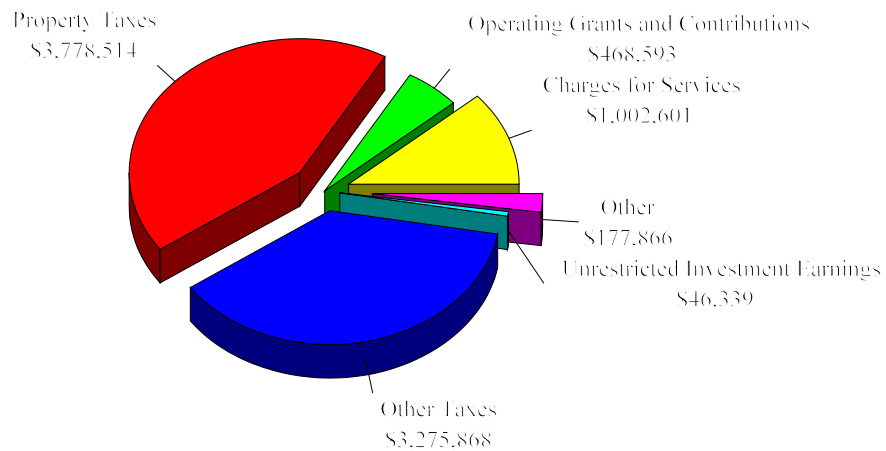
	<b>Changes in Net Assets</b>					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>2004</b>	<b>Total 2003</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>		
Revenues:						
Program revenues:						
Charges for services	\$1,002,601	\$ 945,331	\$12,514,890	\$12,359,187	\$13,517,491	\$13,304,518
Operating grants and contributions	468,593	752,682	-	-	468,593	752,682
Capital grants and contributions	371,676	-	174,979	-	546,655	-
General revenues:						
Property taxes	3,778,514	4,001,727	-	-	3,778,514	4,001,727
Other taxes	3,275,868	3,032,464	245,631	239,664	3,521,499	3,272,128
Unrestricted investment earnings	46,339	43,327	42,165	67,722	88,504	111,049
Other	<u>177,866</u>	<u>84,786</u>	<u>188,564</u>	<u>175,782</u>	<u>366,430</u>	<u>260,568</u>
Total revenues	<u>9,121,457</u>	<u>8,860,317</u>	<u>13,166,229</u>	<u>12,842,355</u>	<u>22,287,686</u>	<u>21,702,672</u>
Expenses:						
General government	1,234,061	970,935	-	-	1,234,061	970,935
Public safety	3,885,286	3,634,412	-	-	3,885,286	3,634,412
Transportation	902,604	909,448	-	-	902,604	909,448
Environmental protection	836,748	832,970	-	-	836,748	832,970
Culture and recreation	946,786	969,275	-	-	946,786	969,275
Economic development	108,202	292,287	-	-	108,202	292,287
Operations	-	-	13,882,932	13,151,576	13,882,932	13,151,576
Interest on long-term debt:						
Governmental	90,250	129,118	-	-	90,250	129,118
Water and wastewater	-	-	407,640	409,591	407,640	409,591
Electric	<u>-</u>	<u>-</u>	<u>98,186</u>	<u>148,633</u>	<u>98,186</u>	<u>148,633</u>
Total expenses	<u>8,003,937</u>	<u>7,738,445</u>	<u>14,388,758</u>	<u>13,709,800</u>	<u>22,392,695</u>	<u>21,448,245</u>
Increase (decrease) in net assets before transfers	1,117,520	1,121,872	(1,222,529)	(867,445)	(105,009)	254,427
Transfers	<u>(602,400)</u>	<u>(602,400)</u>	<u>602,400</u>	<u>602,400</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	515,120	519,472	(620,129)	(265,045)	(105,009)	254,427
Net assets - July 1	<u>7,169,051</u>	<u>6,649,579</u>	<u>25,237,962</u>	<u>25,503,006</u>	<u>32,407,013</u>	<u>32,152,585</u>
Net assets - June 30	<u>\$7,684,170</u>	<u>\$7,169,051</u>	<u>\$24,617,833</u>	<u>\$25,237,961</u>	<u>\$32,302,003</u>	<u>\$32,407,013</u>

**Governmental Activities.** Governmental activities increased the City of Newton's net assets by \$515,120, thereby accounting for 490.55% of the total growth in the net assets of the City of Newton.

Key elements of this increase are as follows:

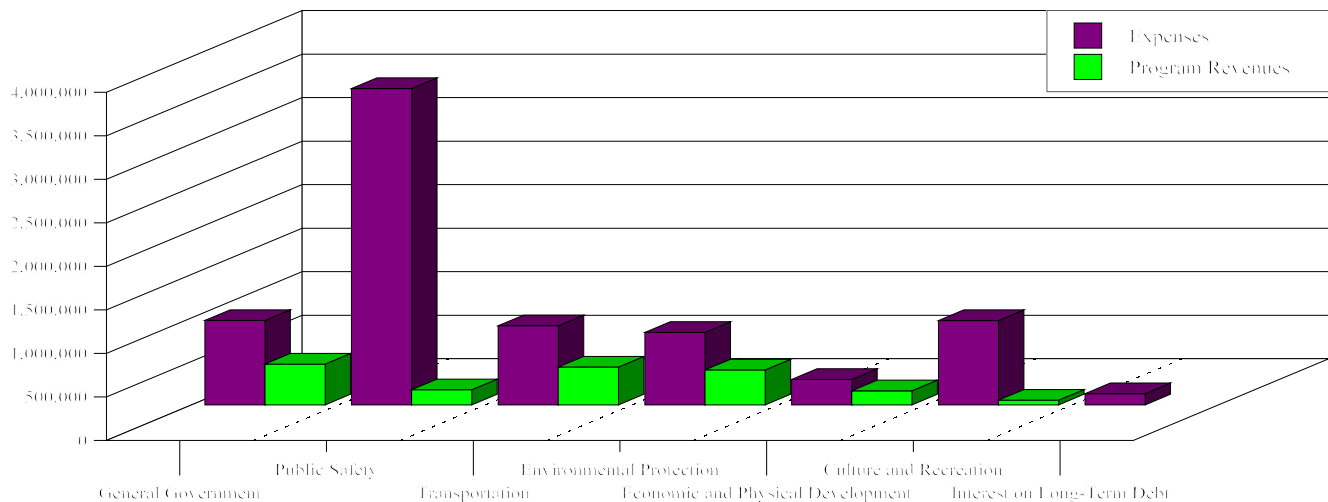
- Property taxes decreased by \$223,213 during the year, a decrease of 5.58%. Most of this decrease is the result of a decrease in the property tax rate.
- Franchise and other taxes and licenses increased by \$243,404.

## Revenues by Source - Governmental Activities



## Expenses and Program Revenues - Governmental Activities

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

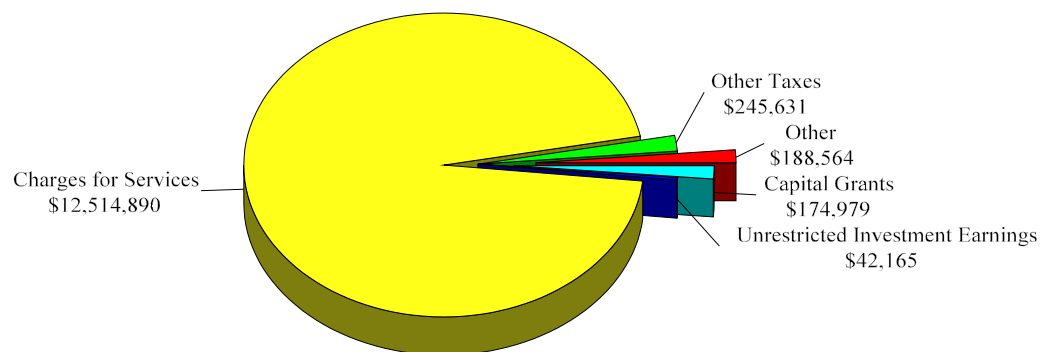


**Business-type Activities.** Business-type activities decreased the City of Newton's net assets by \$620,129, accounting for (590.55%) decline in the City's government-wide activities. However, the overall net assets of the City decreased by \$105,009.

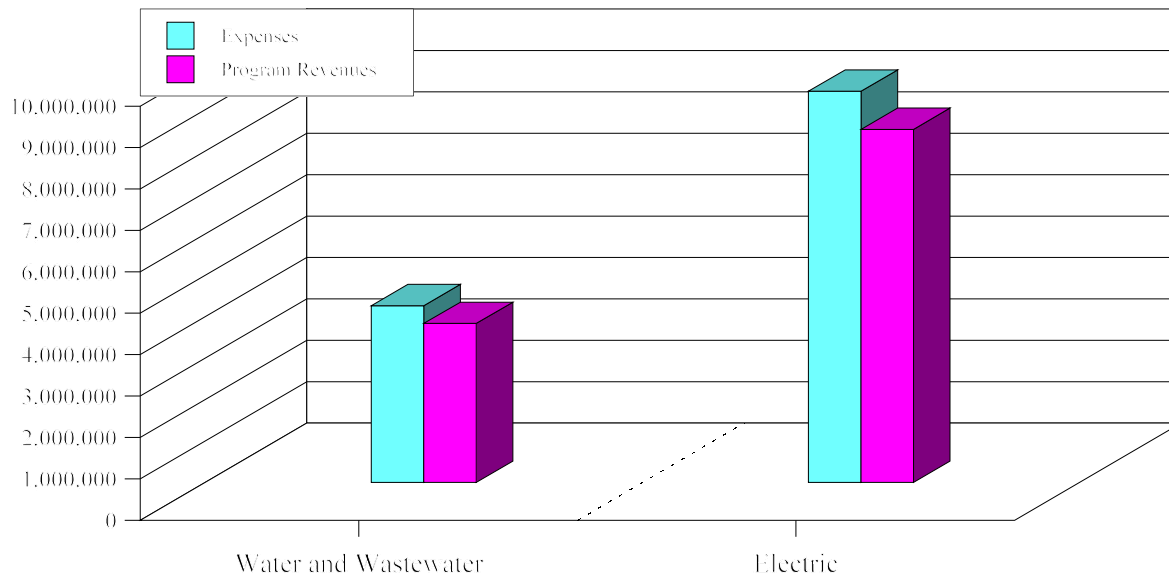
Key elements of this decrease are as follows.

- Increase in operating expenses, which includes power for resale, operations and maintenance, of \$637,185.
- Decrease in charges for services of \$155,703.

## Revenues by Source - Business - Type Activities



## Expenses and Program Revenues - Business - type Activities



## **Financial Analysis of the Funds**

As noted earlier, the City of Newton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Government Funds.** The focus of the City of Newton's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Newton's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a city's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Newton's governmental funds reported combined ending fund balances of \$7,684,170, an increase of \$515,120 in comparison with the prior year. Of this total amount, \$3,146,362 constitutes unreserved fund balance, which is available for spending at the city's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending. Reserve fund balance includes \$126,075 committed to liquidate contracts and purchase orders that remain unperformed at year-end, \$663,533 reserved as required by North Carolina General Statute 159-8(a), and \$36,698 that is restricted by statute for a variety of other purposes.

**General Fund.** The general fund is the chief operating fund of the City of Newton. At the end of the current fiscal year, unreserved or unrestricted fund balance of the General Fund was \$2,918,282, while total fund balance was \$3,744,588. As a measure of the fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 32.3% of total general fund expenditures, while total fund balance represents 41.5% of that same amount.

The fund balance of the City of Newton's General Fund decreased by \$180,888, during the current fiscal year.

Key factors in this growth are as follows:

- Capital outlay increased by \$546,049.
- General government expenditures increased by \$106,076.
- Public safety expenditures increased by \$184,485.

**Proprietary Funds.** The City of Newton's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Wastewater Fund at the end of the year amounted to \$683,227, and those for the Electric Fund amounted to \$1,374,127. The increase (decrease) in net assets for both funds was \$(338,834) and \$(340,585), respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Newton's business-type activities.

## **General Fund Budgetary Highlights**

During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories; 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The differences between the original budget and the final amended budget were \$1,003,250, and can be briefly summarized as follows:

- \$110,150 in increases allocated to general government activities.
- \$390,600 in increases allocated to public safety activities.
- \$147,350 in increases allocated to transportation.
- \$ 500 in decreases allocated to contingency.
- \$ 45,250 in increases allocated to culture and recreation.
- \$150,400 in increases for debt service.
- \$160,000 in increases allocated to transfers out of General Fund to other funds.

Of this increase, \$29,100 was to be funded out of various taxes, licenses and services and \$121,700 from contributed capital. The remaining \$852,450 was to be budgeted from available fund balance. During the year, however, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

Revenues were less than the budgeted amounts primarily because the sales tax associated with the new ½ cent sales tax was less than originally expected. However, expenditures were held in check to compensate for the lack of funding and the City was able to comply with its budgetary requirements.

## **Capital Asset and Debt Administration**

**Capital Assets.** The City of Newton's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$38,478,147 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges

Major capital asset events during the current fiscal year included the following:

- General Capital Projects
- Engineering of Energy United/Taylorsville Water Line
- Engineering of Wastewater Water Treatment Plant Improvement
- Water Treatment/Raw Water Intake Improvements
- Conover Wastewater Line
- Various Vehicles and Equipment

City of Newton's Capital Assets (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$1,449,940	\$1,394,640	\$ 215,332	\$ 215,332	\$ 1,665,272	\$ 1,609,972
Buildings and improvements	725,476	868,327	9,396,579	9,904,926	10,122,056	10,773,254
Distribution systems	269,104	257,815	18,642,654	18,880,296	18,911,758	19,138,111
Public domain infrastructure	1,445,949	1,296,270	-	-	1,445,949	1,296,270
Vehicles and equipment	1,603,013	1,108,473	937,755	807,263	2,540,768	1,915,736
Construction in progress	<u>243,487</u>	<u>1,800</u>	<u>3,548,858</u>	<u>301,061</u>	<u>3,792,344</u>	<u>302,861</u>
Total	<u>\$5,736,969</u>	<u>\$4,927,325</u>	<u>\$32,741,178</u>	<u>\$30,108,878</u>	<u>\$38,478,147</u>	<u>\$35,036,204</u>

Additional information on the City of Newton's capital assets can be found in Note III on pages 45-47 of this report.

### Debt

The City's bond rating is A1 and A by Moody's Investor Service and Standard and Poor's, respectively. Additionally, the City has a bond rating of 83 by the North Carolina Municipal Council. Gross debt obligations of the City are \$15,763,863 as of June 30, 2004. Gross debt consists of general obligation bonds of \$3,395,000 and notes payable of \$12,368,863.

The City's legal debt margin cannot exceed 8% of the assessed value of taxable property less any applicable outstanding debt. The legal debt margin of the City at June 30, 2004, was \$53,056,725.

The general obligation bonds consist of \$228,704 in recreation bonds that are being retired with General Fund revenues and \$3,166,296 of bonds related to water and sewer capital construction and are being retired with resources from the Water and Wastewater Fund. Loans payable consist of various vehicles, equipment and capital projects relating to the governmental activities in the amount of \$2,218,505 and a no interest loan from Catawba County in the amount of \$49,500 for the purchase of land and are obligations of the General Fund. Water and Wastewater Fund has loans payable for lines relating to the City's 1998 master plan in addition to vehicles and equipment of \$7,610,887 and no or low interest loans from Catawba County in the amount of \$281,252 for water and sewer capital improvements which are all obligations of the Water and Wastewater Fund. Electric Fund loans payable for vehicles and equipment totaling \$2,208,719 are all obligations of the Electric Fund.

Debt service costs comprise 6.8% of expenditures of the General Fund, 25.0% of the Water and Wastewater Fund, and 13.9% of the Electric Fund. The long-term debt increased by \$3,646,325 in the current year to fund current year capital vehicle and equipment needs and economic development.

At the end of the current fiscal year, the City of Newton had total bonded debt outstanding of \$3,395,000; the total amount is backed by the full faith and credit of the City.



	Outstanding Debt					
	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Accrued law enforcement officers' unfunded retirement contribution	\$ 299,211	\$ 255,908	\$ -	\$ -	\$ 299,211	\$ 255,908
Compensated absences	318,247	299,830	108,433	102,577	426,680	402,407
General obligation bonds	228,704	278,730	3,166,296	3,636,270	3,395,000	3,915,000
Loans payable	<u>2,268,005</u>	<u>1,298,243</u>	<u>10,100,857</u>	<u>6,904,295</u>	<u>12,368,863</u>	<u>8,202,538</u>
Total	<u>\$3,114,167</u>	<u>\$2,132,711</u>	<u>\$13,375,586</u>	<u>\$10,643,142</u>	<u>\$16,489,754</u>	<u>\$12,775,853</u>

The City of Newton's total debt increased by \$3,713,901 (29.07 %) during the current fiscal year. The key factor in this increase was additional borrowing.

Additional information relating to debt service activity, intergovernmental agreements and historical information concerning the City's debt position can be found on pages 53-56 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

Significant factors considered in preparing the City of Newton's budget for fiscal year 2004 - 2005 were:

- Revenue estimates contained in the City of Newton's Fiscal Year 2004 - 2005 Annual Budget were developed more conservatively in response to continued uncertain economic factors.
- Low to moderate growth in the area is expected to continue to increase the tax base, and, as a result, increase, property taxes. This growth is also anticipated in our electric, water and sewer utility customer base.
- Sales tax has been impacted by the economy for several consecutive years. We anticipate only moderate growth in this revenue source in the foreseeable future.
- Various other budget pressures including increasing health care costs, technology needs and general economic conditions resulted in a need for greater use of cost of service fees.

All of these factors were considered in preparing the City of Newton's budget for the 2005 fiscal year.

During the current fiscal year, unreserved fund balance in the General Fund decreased to \$2,918,282. The City of Newton has appropriated \$441,150 of this amount for spending in the 2005 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2005 fiscal year.

The Water and Wastewater consumption rates remained the same while Electric rates were increased due to a wholesale increase to the City. The Electric rates were increased by an average of 2 percent for all customers. The customer service rates for Water and Wastewater were increased by \$.50 each.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Newton's finances for all those with an interest in the city's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Newton, Office of the Finance Director, P.O. Box 550, Newton, NC 28658.

## **BASIC FINANCIAL STATEMENTS**

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**The Basic Financial Statements present a condensed overview of the financial position and results of operations of the City as a whole. They also serve as an introduction to the more detailed statements and schedules that follow.**

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**Statement of Net Assets**  
**June 30, 2004**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Current assets:			
Cash and short-term investments	\$ 4,278,807	\$ 1,946,774	\$ 6,225,580
Other investments	7,966	-	7,966
Taxes receivable, net	289,936	-	289,936
Accounts receivable, net	511,740	1,090,619	1,602,359
Interest receivable	6,184	2,840	9,024
Due from other governmental agencies	146,404	-	146,404
Internal balances	(90,173)	90,173	-
Inventories	25,377	464,025	489,403
Total current assets	<u>5,176,241</u>	<u>3,594,431</u>	<u>8,770,673</u>
Restricted assets:			
Cash and cash equivalents	<u>524,559</u>	<u>2,996,281</u>	<u>3,520,840</u>
Capital assets:			
Land, non-depreciable assets and construction in progress	1,693,427	3,764,190	5,457,616
Other capital assets, net of depreciation	<u>4,043,543</u>	<u>28,976,988</u>	<u>33,020,531</u>
Total capital assets	<u>5,736,969</u>	<u>32,741,178</u>	<u>38,478,147</u>
Total assets	<u>\$ 11,437,770</u>	<u>\$ 39,331,892</u>	<u>\$ 50,769,661</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and other current liabilities	\$ 586,239	\$ 1,341,192	\$ 1,927,431
Due to other governmental agencies	-	14,694	14,694
Customer deposits	-	134,130	134,130
Unearned revenues	53,194	-	53,194
Discount on bond issuance - net	-	(2,802)	(2,802)
Deferred loss on refunding - net	-	(148,742)	(148,742)
Long-term liabilities:			
Due within one year	920,255	1,841,674	2,761,929
Due in more than one year	<u>2,193,912</u>	<u>11,533,912</u>	<u>13,727,825</u>
Total liabilities	<u>3,753,600</u>	<u>14,714,057</u>	<u>18,467,657</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	3,764,819	22,470,306	26,235,125
Restricted for capital projects	772,989	-	772,989
Unrestricted	<u>3,146,362</u>	<u>2,147,527</u>	<u>5,293,889</u>
Total net assets	<u>\$ 7,684,170</u>	<u>\$ 24,617,833</u>	<u>\$ 32,302,003</u>

*The notes to the financial statements are an integral part of this statement.*

**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit 2**

**Statement of Activities  
For the Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for	Operating	Capital	Governmental	Business-	Total
		Services	Grants and	Grants and	Activities	type	
			Contributions	Contributions		Activities	
Governmental activities:							
General government	\$ 1,234,061	\$ 531,006	\$ -	\$ -	\$ (703,056)	\$ -	\$ (703,056)
Public safety	3,885,286	45,472	52,388	-	(3,787,426)	-	(3,787,426)
Transportation	902,604	5,423	396,065	121,676	(379,440)	-	(379,440)
Environmental protection	836,748	350,376	20,139	-	(466,233)	-	(466,233)
Cultural and recreational	946,786	59,659	-	-	(887,127)	-	(887,127)
Economic and physical development	108,202	10,666	-	250,000	152,464	-	152,464
Interest on long-term debt	<u>90,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(90,250)</u>	<u>-</u>	<u>(90,250)</u>
Total governmental activities	<u>8,003,939</u>	<u>1,002,601</u>	<u>468,593</u>	<u>371,676</u>	<u>(6,161,068)</u>	<u>-</u>	<u>(6,161,068)</u>
Business-type activities:							
Water and Wastewater	4,894,891	3,683,406	-	174,979	-	(1,036,506)	(1,036,506)
Electric	<u>9,493,867</u>	<u>8,831,484</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(662,383)</u>	<u>(662,383)</u>
Total business-type activities	<u>14,388,758</u>	<u>12,514,890</u>	<u>-</u>	<u>174,979</u>	<u>-</u>	<u>(1,698,889)</u>	<u>(1,698,889)</u>
Total	<u>\$ 22,392,696</u>	<u>\$ 13,517,491</u>	<u>\$ 468,593</u>	<u>\$ 546,654</u>	<u>(6,161,068)</u>	<u>(1,698,889)</u>	<u>(7,859,957)</u>
General revenues:							
Taxes:							
Property taxes					3,778,514	-	3,778,514
Local option sales tax					2,409,606	-	2,409,606
Franchise tax					646,646	-	646,646
Other taxes					219,616	245,631	465,247
Unrestricted investment earnings					46,339	42,165	88,504
Miscellaneous					177,866	188,564	366,430
Transfers					<u>(602,400)</u>	<u>602,400</u>	<u>-</u>
Total general revenues, special items and transfers					<u>6,676,188</u>	<u>1,078,760</u>	<u>7,754,948</u>
Change in net assets					515,120	(620,129)	(105,009)
Net assets - beginning					<u>7,169,051</u>	<u>25,237,962</u>	<u>32,407,013</u>
Net assets - ending					<u>\$ 7,684,170</u>	<u>\$ 24,617,833</u>	<u>\$ 32,302,003</u>

*The notes to the financial statements are an integral part of this statement.*

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

	<b>Major Fund</b>	<b>Total</b>	<b>Total</b>
	<b>General</b>	<b>Non-Major</b>	<b>Governmental</b>
<b><u>Assets</u></b>	<b><u>Fund</u></b>	<b><u>Funds</u></b>	<b><u>Funds</u></b>
Cash and short-term investments	\$ 3,302,444	\$ 384,465	\$ 3,686,909
Other investments	7,966	-	7,966
Taxes receivable, net	289,936	-	289,936
Accounts receivable, net	511,740	-	511,740
Interest receivable	5,389	-	5,389
Due from other governmental agencies	146,404	-	146,404
Inventories	25,377	-	25,377
Restricted cash and cash equivalents	<u>24,572</u>	<u>499,987</u>	<u>524,559</u>
Total assets	<u>\$ 4,313,829</u>	<u>\$ 884,452</u>	<u>\$ 5,198,281</u>
<b><u>Liabilities and Fund Balances</u></b>			
Liabilities:			
Accounts payable and other current liabilities	\$ 226,112	\$ 111,463	\$ 337,574
Deferred revenues	<u>343,130</u>	<u>-</u>	<u>343,130</u>
Total liabilities	<u>569,241</u>	<u>111,463</u>	<u>680,704</u>
Fund balances:			
Reserved for:			
State statute	663,533	-	663,533
Inventories	25,377	-	25,377
Encumbrances	126,075	-	126,075
Streets - Powell Bill	-	-	-
Open space fees	11,321	-	11,321
Unreserved, reported in:			
General Fund - designated for subsequent year	441,150	-	441,150
General Fund - undesignated	2,477,132		2,477,132
Capital Project Funds	<u>-</u>	<u>772,989</u>	<u>772,989</u>
Total fund balances	<u>3,744,588</u>	<u>772,989</u>	<u>4,517,577</u>
Total liabilities and fund balances	<u>\$ 4,313,829</u>	<u>\$ 884,452</u>	<u>\$ 5,198,281</u>

*The notes to the financial statements are an integral part of this statement.*

**Reconciliation of the Governmental Funds Balance Sheet  
To the Statement of Net Assets  
June 30, 2004**

Total governmental fund balances	\$ 4,517,577
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,736,969
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. Deferred revenues	289,936
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of activities.	316,611
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds. Accrued interest on long-term debt	(62,756)
Long-term debt	(2,496,709)
Compensated absences	(318,247)
Law enforcement officers' separation allowance	<u>(299,211)</u>
Net assets of governmental activities	<u>\$ 7,684,170</u>

*The notes to the financial statements are an integral part of this statement.*

**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Non-Major</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 3,829,540	\$ -	\$ 3,829,540
Other taxes and licenses	2,629,222	-	2,629,222
Unrestricted intergovernmental revenues	1,001,680	-	1,001,680
Restricted intergovernmental revenues	404,862	250,000	654,862
Permits and fees	82,783	-	82,783
Sales and services	409,077	-	409,077
Investment earnings	45,211	1,128	46,339
Other revenues	<u>221,345</u>	<u>-</u>	<u>221,345</u>
Total revenues	<u>8,623,721</u>	<u>251,128</u>	<u>8,874,849</u>
<b>Expenditures:</b>			
Current:			
General government	1,236,804	-	1,236,804
Public safety	3,599,405	-	3,599,405
Transportation	814,605	-	814,605
Environmental protection	795,529	-	795,529
Cultural and recreational	986,740	-	986,740
Economic and physical development	-	241,687	241,687
Capital outlay	977,606	-	977,606
Debt service:			-
Principal retirement	548,113	-	548,113
Interest and fees	<u>68,495</u>	<u>-</u>	<u>68,495</u>
Total expenditures	<u>9,027,297</u>	<u>241,687</u>	<u>9,268,984</u>
Revenues over (under) expenditures	<u>(403,576)</u>	<u>9,441</u>	<u>(394,135)</u>
<b>Other Financing Sources (Uses):</b>			
Proceeds from borrowing	867,850	600,000	1,467,850
Capital contributions	121,676	-	121,676
Operating transfers - in	-	158,200	158,200
Operating transfers - out	<u>(760,600)</u>	<u>-</u>	<u>(760,600)</u>
Total other financing sources (uses)	<u>228,926</u>	<u>758,200</u>	<u>987,126</u>
Net change in fund balances	(174,650)	767,641	592,991
 Fund balances , July 1	 3,925,476	 5,348	 3,930,824
Increase (decrease) in reserve for inventory	<u>(6,238)</u>	<u>-</u>	<u>(6,238)</u>
 Fund balances, June 30	 <u>\$ 3,744,588</u>	 <u>\$ 772,989</u>	 <u>\$ 4,517,577</u>

*The notes to the financial statements are an integral part of this statement.*

**Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	592,991
Change in fund balance due to change in reserve for inventory		(6,238)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay		1,219,293
Depreciation expense		(409,648)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue for tax revenues		(55,933)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from borrowing		(1,467,850)
Accrued interest on long-term debt		(21,755)
Principal payments		548,113

Expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(18,417)
Net pension obligation		(43,302)

Net revenue of the internal service fund determined to be governmental activities.		<u>177,866</u>
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Total changes in net assets of governmental activities	\$	<u><u>515,120</u></u>
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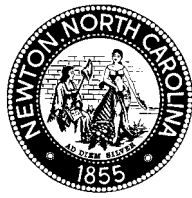
*The notes to the financial statements are an integral part of this statement.*



**General Fund**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2004**

	General Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 3,853,750	\$ 3,861,050	\$ 3,829,540	\$ (31,510)
Other taxes and licenses	2,869,600	2,869,600	2,629,222	(240,378)
Unrestricted intergovernmental revenues	983,150	1,042,450	1,001,680	(40,770)
Restricted intergovernmental revenues	397,800	397,800	404,862	7,062
Permits and fees	134,650	79,650	82,783	3,133
Sales and services	483,950	459,450	409,077	(50,373)
Investment earnings	27,400	27,400	45,211	17,811
Other revenues	<u>86,100</u>	<u>128,100</u>	<u>221,345</u>	<u>93,245</u>
Total revenues	<u>8,836,400</u>	<u>8,865,500</u>	<u>8,623,721</u>	<u>(241,779)</u>
<b>Expenditures:</b>				
Current:				
General government	1,522,550	1,632,700	1,333,513	299,187
Public safety	4,207,500	4,598,100	4,170,322	427,778
Transportation	815,900	963,250	907,755	55,495
Environmental protection	1,006,450	1,006,450	976,154	30,296
Cultural and recreational	1,207,900	1,253,150	1,022,945	230,205
Contingency	1,000	500	-	500
Debt service:				
Principal retirement	386,800	548,150	548,113	37
Interest and fees	<u>79,850</u>	<u>68,900</u>	<u>68,495</u>	<u>405</u>
Total expenditures	<u>9,227,950</u>	<u>10,071,200</u>	<u>9,027,297</u>	<u>1,043,902</u>
Revenues over (under) expenditures	<u>(391,550)</u>	<u>(1,205,700)</u>	<u>(403,576)</u>	<u>802,123</u>
<b>Other Financing Sources (Uses):</b>				
Appropriated fund balance	126,100	978,550	-	(978,550)
Proceeds from borrowing	867,850	867,850	867,850	-
Contributed capital	-	121,700	121,676	(24)
Operating transfers - out	<u>(602,400)</u>	<u>(762,400)</u>	<u>(760,600)</u>	<u>1,800</u>
Total other financing sources (uses)	<u>391,550</u>	<u>1,205,700</u>	<u>228,926</u>	<u>(976,774)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(174,650)</u>	<u>\$ (174,650)</u>
 Fund balance, July 1			3,925,476	
Increase (decrease) in reserve for inventory			<u>(6,238)</u>	
 Fund balance, June 30			<u>\$ 3,744,588</u>	

*The notes to the financial statements are an integral part of this statement.*



**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit 8**  
**Page 1 of 2**

**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2004**

<u>Assets</u>	Business-type Activities Enterprise Funds			
	Water and Wastewater	Electric		Internal
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Service Fund</u>
Current assets:				
Cash and cash equivalents	\$ 918,638	\$ 1,028,136	\$ 1,946,774	\$ 591,897
Accounts receivable, net	363,858	726,761	1,090,619	-
Interest receivable	1,335	1,506	2,840	795
Inventories	131,835	332,190	464,025	-
Internal balances	63,437	26,736	90,173	-
Restricted cash and cash equivalents	<u>2,977,430</u>	<u>18,851</u>	<u>2,996,281</u>	<u>-</u>
Total current assets	<u>4,456,533</u>	<u>2,134,179</u>	<u>6,590,713</u>	<u>592,692</u>
Capital assets:				
Land and improvements	210,332	5,000	215,332	-
Buildings and improvements	19,325,340	500,567	19,825,907	-
Distribution systems	19,587,740	7,410,137	26,997,877	-
Furniture and maintenance equipment	674,080	1,981,871	2,655,951	-
Vehicles	455,223	637,383	1,092,605	-
Construction in progress	3,397,619	151,239	3,548,858	-
Less accumulated depreciation	<u>(16,975,112)</u>	<u>(4,620,240)</u>	<u>(21,595,352)</u>	<u>-</u>
Capital assets, net	<u>26,675,222</u>	<u>6,065,956</u>	<u>32,741,178</u>	<u>-</u>
Total assets	<u>\$ 31,131,755</u>	<u>\$ 8,200,136</u>	<u>\$ 39,331,892</u>	<u>\$ 592,692</u>

cont.

**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit 8, cont.  
Page 2 of 2**

**Statement of Net Assets  
Proprietary Funds  
June 30, 2004**

	Business-type Activities Enterprise Funds			Internal Service Fund
	Water and Wastewater Fund	Electric Fund	Total	
<b><u>Liabilities</u></b>				
Current liabilities:				
Accounts payable and other current liabilities	\$ 752,431	\$ 588,761	\$ 1,341,192	\$ 185,908
Due to other government	14,694	-	14,694	-
Customer deposits	39,443	94,687	134,130	-
General obligation bonds payable - current	461,393	-	461,393	-
Discount on bond issuance - net	(2,802)	-	(2,802)	-
Deferred loss on refunding - net	(148,742)	-	(148,742)	-
Loans payable - current	<u>916,402</u>	<u>463,879</u>	<u>1,380,281</u>	<u>-</u>
Total current liabilities	2,032,819	1,147,326	3,180,145	185,908
Noncurrent liabilities:				
General obligation bonds payable	2,704,903	-	2,704,903	-
Loans payable	6,975,737	1,744,840	8,720,576	-
Accrued compensated absences	<u>77,415</u>	<u>31,018</u>	<u>108,433</u>	<u>-</u>
Total liabilities	<u>11,790,873</u>	<u>2,923,184</u>	<u>14,714,057</u>	<u>185,908</u>
<b><u>Net Assets</u></b>				
Invested in capital assets, net of related debt	18,594,217	3,876,089	22,470,306	-
Unrestricted	<u>683,227</u>	<u>1,374,127</u>	<u>2,057,354</u>	<u>406,784</u>
Total net assets	19,277,444	5,250,216	24,527,660	<u>\$ 406,784</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	<u>63,437</u>	<u>26,736</u>	<u>90,173</u>	
Net assets of business-type activities	<u>\$ 19,340,881</u>	<u>\$ 5,276,952</u>	<u>\$ 24,617,833</u>	

*The notes to the financial statements are an integral part of this statement.*

**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	Business-type Activities Enterprise Funds			
	Water and Wastewater Fund	Electric Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>				
Charges for services	\$ 3,426,658	\$ 8,546,469	\$ 11,973,127	\$ 1,125,885
Other operating revenues	<u>321,308</u>	<u>349,729</u>	<u>671,038</u>	<u>-</u>
Total operating revenues	<u>3,747,966</u>	<u>8,896,199</u>	<u>12,644,165</u>	<u>1,125,885</u>
<b>Operating Expenses:</b>				
Power for resale	-	6,242,573	6,242,573	-
Operations	2,073,236	1,626,081	3,699,317	892,946
Maintenance	727,222	-	727,222	-
Administration	714,850	1,025,900	1,740,750	-
Depreciation	<u>971,837</u>	<u>407,062</u>	<u>1,378,899</u>	<u>-</u>
Total operating expenses	<u>4,487,145</u>	<u>9,301,616</u>	<u>13,788,761</u>	<u>892,946</u>
Operating income (loss)	<u>(739,179)</u>	<u>(405,417)</u>	<u>(1,144,596)</u>	<u>232,939</u>
<b>Nonoperating Revenues (Expenses):</b>				
Sales tax	-	245,631	245,631	-
Investment earnings	30,712	11,453	42,165	4,216
Interest expense	(407,640)	(98,186)	(505,826)	-
Gain (loss) on disposal of fixed assets	<u>(106)</u>	<u>(94,065)</u>	<u>(94,171)</u>	<u>-</u>
Nonoperating revenues (expenses), net	<u>(377,034)</u>	<u>64,833</u>	<u>(312,201)</u>	<u>4,216</u>
Income (loss) before transfers and capital contributions	(1,116,212)	(340,585)	(1,456,797)	237,155
Transfers (to) from other funds:				
General Fund	602,400	-	602,400	-
Capital contributions	<u>174,979</u>	<u>-</u>	<u>174,979</u>	<u>-</u>
Change in net asset	(338,834)	(340,585)	(679,418)	237,155
Total net assets - beginning	<u>19,635,954</u>	<u>5,602,008</u>	<u>25,237,962</u>	<u>169,628</u>
Total net assets - ending	19,297,120	5,261,424	24,558,544	<u>\$ 406,784</u>
Adjustment to reflect the consolidation of internal service fund activities related to business-type activities.	<u>43,761</u>	<u>15,528</u>	<u>59,289</u>	
Net assets of business-type activities	<u>\$ 19,340,881</u>	<u>\$ 5,276,952</u>	<u>\$ 24,617,833</u>	

*The notes to the financial statements are an integral part of this statement.*



**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit 10**

**Page 1 of 2**

**Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2004**

	<b>Business-type Activities Enterprise Funds</b>			<b>Internal Service Fund</b>
	<b>Water and Wastewater Fund</b>	<b>Electric Fund</b>	<b>Totals</b>	
<b>Cash Flows From Operating Activities:</b>				
Cash received from customers and users	\$ 3,732,459	\$ 8,944,292	\$ 12,676,751	\$ 1,125,885
Cash paid for goods and services	(1,856,840)	(8,515,929)	(10,372,769)	(897,013)
Cash paid to or on behalf of employees for services	<u>(1,080,939)</u>	<u>(357,673)</u>	<u>(1,438,612)</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>794,680</u>	<u>70,690</u>	<u>865,370</u>	<u>228,872</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>				
Operating transfers - in (out)	<u>602,400</u>	<u>-</u>	<u>602,400</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Acquisition and construction of capital assets	(3,211,869)	(718,521)	(3,930,390)	-
Sales tax	-	245,631	245,631	-
Payments of general obligation bonds and loans payable	(836,320)	(1,420,090)	(2,256,410)	-
Interest paid on general obligation bonds and loans payable	(358,686)	(97,253)	(455,939)	-
Proceeds from issuance of general obligation bonds and loans payable	<u>4,768,000</u>	<u>215,000</u>	<u>4,983,000</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>361,125</u>	<u>(1,775,233)</u>	<u>(1,414,108)</u>	<u>-</u>
<b>Cash Flows From Investing Activities:</b>				
Interest on investments	<u>32,786</u>	<u>12,779</u>	<u>45,565</u>	<u>3,930</u>
Net increase (decrease) in cash and cash equivalents	1,790,991	(1,691,764)	99,227	232,802
Cash and cash equivalents at beginning of year	<u>2,105,078</u>	<u>2,738,751</u>	<u>4,843,829</u>	<u>359,095</u>
Cash and cash equivalents at end of year	<u>\$ 3,896,069</u>	<u>\$ 1,046,987</u>	<u>\$ 4,943,056</u>	<u>\$ 591,897</u>

cont.

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2004**

	Business-type Activities Enterprise Funds			Internal Service Fund
	Water and Wastewater Fund	Electric Fund	Totals	
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>				
<b>Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ (739,179)	\$ (405,417)	\$ (1,144,596)	\$ 232,939
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	971,837	407,062	1,378,899	-
Change in assets and liabilities:				
Accounts and interest receivable	(8,525)	(29,492)	(38,017)	-
Due to (from) other funds	-	77,586	77,586	-
Due to (from) other governmental agencies	2,923	-	2,923	-
Inventories	(5,038)	9,595	4,557	-
Accounts payable/accrued expenses	574,369	12,406	586,775	(4,067)
Customer deposits	(6,982)	(1,631)	(8,613)	-
Accrued vacation pay	5,275	581	5,856	-
Net cash provided by (used in) operating activities	<u>\$ 794,680</u>	<u>\$ 70,690</u>	<u>\$ 865,370</u>	<u>\$ 228,872</u>
<b>Supplemental Schedule of Non Cash Financing Activities:</b>				
Amortization of discount on refunded debt	<u>\$ 358</u>	<u>\$ -</u>	<u>\$ 358</u>	<u>\$ -</u>
Amortization of loss on refunded debt	<u>\$ 18,989</u>	<u>\$ -</u>	<u>\$ 18,989</u>	<u>\$ -</u>
Acquisition of fixed assets through contribution of capital	<u>\$ 174,979</u>	<u>\$ -</u>	<u>\$ 174,979</u>	<u>\$ -</u>
Acquisition of fixed assets through transfer from other fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*The notes to the financial statements are an integral part of this statement.*





## **NOTES TO THE FINANCIAL STATEMENTS**

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**These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.**

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements

June 30, 2004

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#### I. Summary of Significant Accounting Policies

The accounting policies of the City of Newton conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

##### A. Reporting Entity

The City of Newton is a municipal corporation that is governed by an elected mayor and a six-member council.

##### B. Basis of Presentation

**Government-wide Statements:** The statement of net assets and the statement of activities display information about the government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expense and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

The City reports the following non-major governmental funds:

Capital Projects Funds - These funds are used to account for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The City reports the following major enterprise funds:

Electric Fund - This Fund is used to account for the City's electric fund operations.

Water and Wastewater Fund - This fund is used to account for the City's water and wastewater operations.

The City reports the following fund type:

Internal Service Fund - The Health Insurance Fund is used to account for the payment of medical claims of the City's employees and their covered dependents.

#### **C. Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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Governmental Fund Financial Statements - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Catawba County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Newton. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Catawba County from March 2003 through February 2004 apply to the fiscal year ended June 30, 2004. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2004 because they are intended to finance the City's operations during the 2005 fiscal year.

Sales taxes and certain intergovernmental revenues, such as utility franchise tax, collected and held by the State at year end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements

June 30, 2004

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#### **D. Budgetary Data**

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Enterprise Funds and the Internal Service Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Projects Fund, and the Enterprise Fund Capital Projects Funds which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until annual ordinance can be adopted. Budget transfers are approved by the City Council as follows:

- (1) The City Manager is hereby authorized to approve transfers of appropriations between line items within a division budget.
- (2) In accordance with G.S. 159-13(b)(3), each expenditure to be charged against a contingency appropriation shall be authorized only by Resolution of the City Council. In an emergency situation, the City Manager may approve an expenditure to be charged to a contingency account provided that such emergency expenditure is reported to the City Council at its next meeting.
- (3) The City Manager is hereby authorized to approve budget transfers within a department from one division to another.
- (4) Transfers from one fund to another shall not be allowed except as is authorized by the Budget and Fiscal Control Act and such transfers shall be approved by the City Council prior to transfer.
- (5) All transfers as authorized hereinabove shall be reported monthly to the City Council and included in the minutes of the Board.
- (6) The Director of Finance shall prepare forms necessary to document each budget transfer and comply with the reporting of the budget transfers as specified hereinabove.

#### **E. Assets, Liabilities and Fund Equity**

##### **1. Deposits and Investments**

All deposits of the City are made in board-designated official depositories and are secured as required by State law (G.S. 159-31). The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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## **CITY OF NEWTON, NORTH CAROLINA**

### **Notes to the Financial Statements**

**June 30, 2004**

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State law (G.S. 159-30(c)) authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The City's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

In accordance with State law, the City has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

#### **2. Cash and Cash Equivalents**

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

#### **3. Restricted Assets**

The unexpended loan proceeds of the General Fund and Enterprise Fund are classified as restricted assets because their use is completely restricted to the purpose for which the financing was originally issued. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

#### **4. Ad Valorem Taxes Receivable**

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. Liens are placed on these taxes as of March 1 each year. These taxes are based on the assessed values as of January 1, 2003.

#### **5. Allowances for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.



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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements

June 30, 2004

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#### 6. Inventory and Prepaid Items

The inventories of the City are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of expendable supplies and they are recorded as expenditures as used rather than when purchased.

The inventory of the City's enterprise funds consists of materials and supplies held for subsequent use. The cost of these inventories is expensed when held for resale rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

#### 7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Infrastructure	50
Buildings and improvements	50
Vehicles and equipment	5
Distribution system - electric	30
Distribution system - water and wastewater	40

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements

June 30, 2004

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#### 8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 9. Compensated Absences

The vacation policy of the City provides for the accumulation of up to two hundred forty (240) hours earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. For the City, the current portion of the accumulated vacation pay is not considered to be material.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

#### 10. Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law (G.S. 159-13(b)(16)) restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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The governmental fund types classify fund balance as follows:

#### **Reserved**

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law (G.S. 159-8(a)). This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserved for open space fees - portion of fund balance available to pay for recreational needs.

#### **Unreserved**

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated for the adopted 2004-2005 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

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## **CITY OF NEWTON, NORTH CAROLINA**

### **Notes to the Financial Statements**

**June 30, 2004**

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## **II. Stewardship, Compliance and Accountability**

### **A. Excess of Expenditures Over Appropriations**

Excess of Expenditures over Appropriations in Individual Funds - As shown in the statement of revenues and expenditures of the Enterprise Fund and the General Fund and the statement of revenues and expenses of the Health Insurance Fund, no departments exceeded their budget appropriation for the year ended June 30, 2004:

## **III. Detail Notes on All Funds**

### **A. Assets**

#### **1. Deposits**

All the deposits of the City are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2004, the City's deposits had a carrying amount of \$5,472,093 and a bank balance of \$5,793,394. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2004, the City's petty cash fund totaled \$955.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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#### 2. Investments

The investments of the City are categorized to give an indication of the level of custodial risk assumed by each of these entities at year-end. Column A includes investments that are insured or registered or for which the securities are held by the City or their agents in the entity's name. Column B includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the City's name. Column C includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent, but not in the City's name. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the City does not own any identifiable securities, but are shareholders of a percentage of the funds.

At June 30, 2004, the City's investments were as follows:

	<u>Categories</u>			<u>Reported Value</u>	<u>Fair Value</u>
	<u>A</u>	<u>B</u>	<u>C</u>		
Governmental National Mortgage Association (GNMA)	<u>\$7,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,966</u>	<u>\$ 7,966</u>
Total	<u>\$7,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>7,966</u>	<u>7,966</u>
North Carolina Cash Management Trust Mutual Fund				752,533	752,533
Restricted cash and investments held in pooled cash or Mutual Fund accounts				<u>3,520,840</u>	<u>3,520,840</u>
Total investments				<u>\$4,281,339</u>	<u>\$4,281,339</u>

#### 3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	<u>\$ 27,733</u>
Enterprise Funds:	
Water and Wastewater Fund	9,700
Electric Fund	<u>27,300</u>
Total	<u>37,000</u>
Total	<u>\$ 64,733</u>

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# CITY OF NEWTON, NORTH CAROLINA

## Notes to the Financial Statements June 30, 2004

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### 4. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments/ Transfers</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>					
Capital assets not being depreciated:					
Land	\$ 1,394,640	\$ 55,300	\$ -	\$ -	\$ 1,449,940
Construction in progress	<u>1,800</u>	<u>241,687</u>	<u>-</u>	<u>-</u>	<u>243,487</u>
Total capital assets not being depreciated	<u>1,396,440</u>	<u>296,987</u>	<u>-</u>	<u>-</u>	<u>1,693,427</u>
Capital assets being depreciated:					
Buildings and improvements	5,086,798	7,400	-	(189,909)	4,904,289
Distribution	277,405	35,147	-	-	312,552
Equipment	1,231,224	90,278	21,972	-	1,299,529
Vehicles	4,234,913	758,253	282,459	-	4,710,707
Infrastructure	<u>2,419,135</u>	<u>31,229</u>	<u>-</u>	<u>189,909</u>	<u>2,640,273</u>
Total capital assets being depreciated	<u>13,249,475</u>	<u>922,306</u>	<u>304,431</u>	<u>-</u>	<u>13,867,350</u>
Less accumulated depreciated for:					
Buildings and improvements	4,218,470	34,087	-	(73,745)	4,178,812
Distribution	19,590	23,858	-	-	43,448
Equipment	1,048,608	66,311	21,972	(63,875)	1,029,072
Vehicles	3,309,056	254,245	282,459	97,309	3,378,151
Infrastructure	<u>1,122,865</u>	<u>31,147</u>	<u>-</u>	<u>40,311</u>	<u>1,194,323</u>
Total accumulated depreciation	<u>9,718,589</u>	<u>409,648</u>	<u>304,431</u>	<u>-</u>	<u>9,823,807</u>
Total capital assets being depreciated, net	<u>3,530,886</u>	<u>512,658</u>	<u>-</u>	<u>-</u>	<u>4,043,543</u>
Governmental activity capital assets, net	<u>\$ 4,927,326</u>	<u>\$809,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,736,969</u>

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# CITY OF NEWTON, NORTH CAROLINA

## Notes to the Financial Statements June 30, 2004

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Depreciation expense was charged to functions/programs of the government as follows:

General government	\$ 30,072
Public safety	232,901
Transportation	81,680
Environmental protection	38,289
Cultural and recreational	<u>26,707</u>
Total depreciation expense	<u>\$409,648</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments Transfers</u>	<u>Ending Balances</u>
<b>Business-type Activities:</b>					
Electric Fund:					
Capital assets not being depreciated:					
Land	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Construction in progress	<u>77,572</u>	<u>131,119</u>	<u>-</u>	<u>(57,452)</u>	<u>151,239</u>
Total capital assets not being depreciated	<u>82,572</u>	<u>131,119</u>	<u>-</u>	<u>(57,452)</u>	<u>156,239</u>
Capital assets being depreciated:					
Buildings and improvements	489,761	-	-	10,806	500,567
Substations, lines, and related equipment	8,489,427	26,979	-	(1,106,270)	7,410,137
Furniture and maintenance equipment	503,197	383,210	-	1,095,464	1,981,871
Vehicles	<u>496,783</u>	<u>140,600</u>	<u>-</u>	<u>-</u>	<u>637,383</u>
Total capital assets being depreciated	<u>9,979,168</u>	<u>550,789</u>	<u>-</u>	<u>-</u>	<u>10,529,958</u>
Less accumulated depreciation for:					
Buildings and improvements	333,482	12,776	-	4,037	350,294
Substations, lines, and related equipment	3,236,811	205,452	-	(168,276)	3,273,987
Furniture and maintenance equipment	316,672	124,253	-	164,239	605,164
Vehicles	<u>326,213</u>	<u>64,582</u>	<u>-</u>	<u>-</u>	<u>390,795</u>
Total accumulated depreciation	<u>4,213,178</u>	<u>407,062</u>	<u>-</u>	<u>-</u>	<u>4,620,240</u>
Total capital assets being depreciated, net	<u>5,765,990</u>	<u>143,727</u>	<u>-</u>	<u>-</u>	<u>5,909,717</u>
Electric fund capital assets, net	<u>5,848,562</u>	<u>274,846</u>	<u>-</u>	<u>(57,452)</u>	<u>6,065,956</u>

# CITY OF NEWTON, NORTH CAROLINA

## Notes to the Financial Statements June 30, 2004

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments Transfers</u>	<u>Ending Balances</u>
Water and Wastewater Fund:					
Capital assets not being depreciated:					
Land	\$ 210,332	\$ -	\$ -	\$ -	\$ 210,332
Construction in progress	<u>223,489</u>	<u>3,174,130</u>	<u>-</u>	<u>-</u>	<u>3,397,619</u>
Total capital assets not being depreciated	<u>433,821</u>	<u>3,174,130</u>	<u>-</u>	<u>-</u>	<u>3,607,951</u>
Capital assets being depreciated:					
Buildings and improvements	19,316,390	8,950	-	-	19,325,340
Plant and distribution systems	19,394,761	192,979	-	-	19,587,740
Furniture and maintenance equipment	663,292	10,789	52,500	52,500	674,080
Vehicles	<u>525,106</u>	<u>-</u>	<u>17,384</u>	<u>(52,500)</u>	<u>455,223</u>
Total capital assets being depreciated	<u>39,899,549</u>	<u>212,717</u>	<u>69,884</u>	<u>-</u>	<u>40,042,382</u>
Less accumulated depreciation for:					
Buildings and improvements	9,567,742	497,074	-	3,411	10,068,227
Plant and distribution systems	5,767,081	423,835	-	(3,411)	6,187,505
Furniture and maintenance equipment	387,058	32,658	52,500	(10,246)	356,970
Vehicles	<u>351,172</u>	<u>18,270</u>	<u>17,278</u>	<u>10,246</u>	<u>362,410</u>
Total accumulated depreciation	<u>16,073,053</u>	<u>971,837</u>	<u>69,778</u>	<u>-</u>	<u>16,975,112</u>
Total capital assets being depreciated, net	<u>23,826,496</u>	<u>(759,120)</u>	<u>106</u>	<u>-</u>	<u>23,067,270</u>
Water and Wastewater Fund capital assets,	<u>24,260,317</u>	<u>2,415,010</u>	<u>106</u>	<u>-</u>	<u>26,675,222</u>
Business-type activities capital assets, net	<u>\$30,108,879</u>	<u>\$2,689,856</u>	<u>\$ 106</u>	<u>\$(57,452)</u>	<u>\$32,741,178</u>

### Construction commitments

The government has active construction projects as of June 30, 2004. At year end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
General Capital Projects:		
Equipment wash	\$ 15,801	\$ 134,199
East Newton Center	57,667	102,333
Cemetery	170,018	279,982
Electrical improvements	151,239	600,049
Water and sewer improvements	<u>3,397,619</u>	<u>3,861,586</u>
Total	<u>\$3,792,344</u>	<u>\$4,978,149</u>



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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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#### **B. Liabilities**

##### **1. Pension Plan Obligations**

##### **a. Local Government Employees' Retirement System**

Plan Description - The City of Newton contributes to the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR included financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 5.38% and 5.23%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Newton is established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2004, 2003, and 2002 were \$306,525, \$293,603 and \$294,634, respectively. The contributions made by the City equaled the required contribution for each year.

##### **b. Law Enforcement Officers Special Separation Allowance**

Plan Description - The City of Newton administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements

June 30, 2004

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All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2003, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>36</u>
Total	<u>37</u>

A separate report was not issued for the plan.

#### Summary of Significant Accounting Policies

**Basis of Accounting** - The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

**Method Used to Value Investments** - No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

#### Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2003 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumption included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9%-9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

**Annual Pension Cost and Net Pension Obligation** - The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 49,724
Interest on net pension obligation	18,553
Adjustment to annual required contribution	<u>(14,040)</u>
Annual pension cost	54,237
Contributions made	<u>10,935</u>
Increase (decrease) in net pension obligation	43,302
Net pension obligation beginning of year	<u>255,909</u>
Net pension obligation end of year	<u>\$299,211</u>

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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#### 3 Year Trend Information

<b>For Year Ended June 30</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2002	\$45,701	0%	\$214,596
2003	\$50,741	18.58%	\$255,909
2004	\$54,237	20.16%	\$299,211

#### c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description - The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy - Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2004 were \$94,763, which consisted of \$65,820 from the City and \$28,943 from the law enforcement officers.

#### d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description - The State of North Carolina contributes, on behalf of the City of Newton, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy - Plan members are required to contribute \$10 per month to the Fund, which is paid by the City. The State, a non-employer contributor, funds the plan through appropriations. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

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## **CITY OF NEWTON, NORTH CAROLINA**

### **Notes to the Financial Statements**

**June 30, 2004**

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#### **e. Other Postemployment Benefits**

##### **Health Care Benefits**

According to a City resolution, the City provides postretirement health care benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the City.

The City pays the full cost of coverage for these benefits for employees who have thirty (30) or more consecutive years employment with the City. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. Currently 3 retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2004, the City made payments for post-employment health benefit premiums of \$19,560. The City obtains health care coverage through private insurers.

##### **Death Benefits**

The City has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$20,000. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2004 the City made contributions to the State for death benefits of \$7,586. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .13% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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#### 2. Deferred/Unearned Revenues

The balance in deferred/unearned revenues at year-end is composed of the following elements:

<u>General Fund</u>	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Unearned School Resource Funds	\$ -	\$44,226
Prepaid assessments not yet earned	-	8,968
Taxes receivable, net	<u>289,936</u>	<u>-</u>
Total deferred/unearned revenues	<u>\$289,936</u>	<u>\$53,194</u>

#### 3. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disaster for which the City carries commercial insurance. The City has workers' compensation coverage of \$1,000,000 per occurrence, law enforcement officers' liability and public official liability of \$2 million per occurrence, with a \$2 million umbrella policy, auto liability of \$1 million per accident, public entity general liability of \$3 million; commercial inland marine of \$1,007,324 and blanket bonding of \$10,000 per employee. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

#### 4. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements

June 30, 2004

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The Plan is administered by the International City Management Association. Investments are managed by the plan trustee under several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

#### 5. Self-Insurance

The City has established a medical Health Insurance Fund in the Internal Service Fund group. The purpose of this fund is to pay medical claims of the City's employees and their covered dependents and minimize the total cost of annual medical insurance to the City. Self-insurance is in effect for losses up to \$45,000 per participant per year. Aggregate stop-loss coverage is at 120% of expected claims. Losses greater than \$40,000 per participant, and those in excess of the aggregate stop-loss, are insured by a private insurance company.

The Health Insurance Fund collects interfund premiums from insured funds and departments and pays claim settlements and purchases certain insurance policies. Interfund revenues and expenses are accrued when the interfund premiums are earned. Interfund premiums are based on the insured funds' claims experience and are adjusted to cover all reported claims. Claims settlement and loss expenses are accrued in the Health Insurance Fund for the settlement value of claims reported and the estimated value of claims incurred but not reported, up to stop-loss arising from accidents during the period. A liability is established simultaneously. No actuarial study has been performed on the Health Insurance Fund.

The following is a reconciliation of the claims liability for the year ended June 30:

	<u>2004</u>	<u>2003</u>
Claims liability, beginning of year	\$189,628	\$234,222
Claims incurred	634,942	576,675
Payments on claims	<u>(638,662)</u>	<u>(621,269)</u>
Claims liability, end of year	<u>\$185,908</u>	<u>\$ 189,628</u>

#### 6. Long-Term Obligations

##### a. General Obligation Indebtedness

The City's general obligation bonds serviced by the governmental funds were issued for the acquisition and construction of a recreation center. The general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and wastewater systems and which are being retired by its resources are reported as long-term debt in the Water and Wastewater Fund. All general obligation bonds are collateralized by the full faith, credit and taxing power of the City. Principal and interest requirements are appropriated when due.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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Bonds payable at June 30, 2004 are comprised of the following individual issues:

Serviced by the Water and Wastewater Fund:

\$3,466,761, 1986 refunded water serial bonds due in annual installments ranging from \$104,789 to \$397,324 through February 1, 2007; interest at 4.7% to 5.0%	\$ 637,464
\$3,553,649, 1999 refunded sewer serial bonds due in annual installments ranging from \$84,125 to \$519,957 through April 2012; interest at 4.0% to 4.3%	2,528,832

Serviced by the General Fund:

\$503,239, 1984 refunded recreation center serial bonds in annual installments ranging from \$15,211 to \$57,676 through February 1, 2007; interest at 4.7% to 5.0%	136,168
\$191,351, 1999 refunded recreation center serial bonds due in annual installments ranging from \$4,530 to \$27,998 through April, 2012; interest at 4.0% to 4.3%	92,536

Total	<u>\$3,395,000</u>
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The City advance refunded the 1984 Recreation Bonds to increase its total debt service payments over the next 15 years by \$58,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$44,000. The general long-term debt outstanding at June 30, 2004 related to the refunding and being serviced by the general fund was \$136,168.

Although the advance refunding that related to the proprietary (Water and Wastewater Fund) resulted in the recognition of an accounting loss of \$366,761 for the year ended June 30, 1993, the City in effect reduced its aggregate debt service payments by \$443,597 over the next 15 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$204,000. The general long-term debt outstanding related to the refunding and being serviced by the water and sewer fund was \$637,464.

#### b. Loans Payable

The loans payable are for the acquisition of land, vehicles, equipment and various capital, electric and water and wastewater projects. Principal and interest requirements are appropriated when due.

Loans payable at June 30, 2004 are comprised of the following:

	<u>Serviced By:</u>		
	<u>General Fund</u>	<u>Water and Wastewater Fund</u>	<u>Electric Fund</u>
\$40,132, 1986 noninterest bearing water loan payable to Catawba County, due in annual installments of \$301 through November 2007	\$ -	\$ 1,204	\$ -
\$133,427, 1984 noninterest bearing wastewater loan payable to Catawba County, due in annual installments of \$6,671 through May 2005	-	6,672	-
\$158,644, 1985 noninterest bearing water loan payable to Catawba County, due in annual installments of \$7,932 through April 2006	-	15,864	-
\$210,000, 1984 wastewater loan payable to Catawba County, due in annual installments of \$11,025, including interest at 5.0% through May 2005	-	10,973	-

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# CITY OF NEWTON, NORTH CAROLINA

## Notes to the Financial Statements June 30, 2004

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	<u>Serviced By:</u>		
	<u>General Fund</u>	<u>Water and Wastewater Fund</u>	<u>Electric Fund</u>
\$145,385, 1990 noninterest bearing water loan payable to Catawba County, due in annual installments of \$7,631 through June 2010	\$ -	\$ 45,789	\$ -
\$213,183, 1992 and 1991 noninterest water loan payable to Catawba County, due in annual installments of \$10,659 through June 2011	-	85,273	-
\$138,750, 1995 Walnut Creek noninterest bearing wastewater line project loan payable to Catawba County in annual installments of \$13,875 through 2005	-	13,875	-
\$184,730, 1994 McKay Road project noninterest bearing loan payable to Catawba County, in annual installments of \$9,237 through 2014	-	101,602	-
\$99,000, 2002 noninterest bearing loan payable to Catawba Historical Society for land, due in bi-annual installments of \$8,250 through October 2006	49,500	-	-
\$166,500, 2000, 4.65% loan payable to bank in annual installments of \$38,086 for vehicles, due in 2005	36,394	-	-
\$620,000, 2001, 5.27% loan payable to bank in annual installments of \$144,278 for vehicles/equipment, due in 2006	153,018	71,121	43,104
\$542,000, 2002, 4.26% loan payable to bank in annual installments of \$122,639 for vehicles/equipment, due in 2007	221,816	31,242	85,602
\$300,000, 2001, 5.42% loan payable to bank in annual installments of \$52,638 for fire truck, due in 2008	184,845	-	-
\$363,350, 2003, 3.46% loan payable to bank in annual installments of \$80,384 for vehicles/equipment, due in 2008	154,582	37,596	98,469
\$783,850, 2004, 3.27% loan payable to bank in annual installments of \$172,479 for vehicles/equipment, due in 2009	500,850	68,000	215,000
\$367,000, 2004, 3.63% loan payable to bank in annual installments of \$60,312 for fire truck/equipment, due in 2011	367,000	-	-
\$600,000, 2004, 2.77% loan payable to bank in annual installments of \$130,154 for general capital projects, due in 2009	600,000	-	-
\$2,950,153, 2003, 3.80% loan payable to bank in annual installments of \$354,633 for vehicles/equipment, due in 2013	-	2,702,928	-
\$4,700,000, 2004, 2.94% loan payable to bank in annual installments of \$667,851 for water and wastewater capital projects, due in 2012	-	4,700,000	-
\$2,109,955, 2003, 3.09% loan payable to bank in annual installments of \$403,303 for generators, due in 2009	<u>-</u>	<u>-</u>	<u>1,766,544</u>
Total	<u>\$2,268,005</u>	<u>\$7,892,139</u>	<u>\$2,208,719</u>



# CITY OF NEWTON, NORTH CAROLINA

## Notes to the Financial Statements

**June 30, 2004**

Annual debt service requirements to maturity for long-term obligations are as follows:

	<b>General Obligation Bonds</b>		<b>Loans Payable</b>		<b>Total Debt Due</b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
Governmental activities:						
2005	\$ 48,758	\$ 10,133	\$ 553,251	\$ 76,644	\$ 602,009	\$ 86,777
2006	47,869	7,802	514,916	60,583	562,785	68,384
2007	33,974	5,513	435,038	41,352	469,012	46,865
2008	24,015	3,983	362,692	25,686	386,706	29,669
2009	23,759	3,023	287,557	13,116	311,316	16,139
Thereafter	<u>50,330</u>	<u>3,378</u>	<u>114,551</u>	<u>6,264</u>	<u>164,880</u>	<u>9,642</u>
Total	<u>228,704</u>	<u>33,832</u>	<u>2,268,005</u>	<u>223,644</u>	<u>2,496,710</u>	<u>257,476</u>
Business-type activities:						
2005	461,242	134,122	1,380,432	306,574	1,841,674	440,696
2006	452,131	113,053	1,378,265	266,642	1,830,396	379,695
2007	431,026	92,392	1,342,764	222,019	1,773,790	314,411
2008	445,985	73,972	1,325,515	179,485	1,771,500	253,457
2009	441,241	56,132	1,293,226	138,452	1,734,467	194,585
Thereafter	<u>934,670</u>	<u>62,732</u>	<u>3,380,657</u>	<u>248,405</u>	<u>4,315,328</u>	<u>311,138</u>
Total	<u>3,166,296</u>	<u>532,403</u>	<u>10,100,857</u>	<u>1,361,578</u>	<u>13,267,153</u>	<u>1,893,981</u>
Total	<u>\$3,395,000</u>	<u>\$ 566,235</u>	<u>\$12,368,863</u>	<u>\$1,585,222</u>	<u>\$15,763,863</u>	<u>\$2,151,457</u>

At June 30, 2004, the City of Newton had a legal debt margin of \$53,056,725.

### d. Changes in Long-Term Liabilities

	<b><u>July 1, 2003</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>June 30, 2004</u></b>	<b><u>Current Portion of Balance</u></b>
Governmental activities:					
General obligation bonds	\$ 278,730	\$ -	\$ 50,026	\$ 228,704	\$ 48,758
Loans payable	1,298,243	1,467,850	498,088	2,268,005	553,251
Compensated absences	299,829	18,418	-	318,247	318,247
Net pension benefit obligation	<u>255,909</u>	<u>54,237</u>	<u>10,935</u>	<u>299,211</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 2,132,711</u>	<u>\$1,540,505</u>	<u>\$ 559,049</u>	<u>\$ 3,114,166</u>	<u>\$ 920,255</u>
Business-type activities:					
General obligation bonds	\$ 3,636,270	\$ -	\$ 469,974	\$ 3,166,296	\$ 461,242
Loans payable	6,904,295	4,983,000	1,786,437	10,100,858	1,380,432
Compensated absences	<u>102,577</u>	<u>5,856</u>	<u>-</u>	<u>108,433</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$10,643,142</u>	<u>\$4,988,856</u>	<u>\$2,256,412</u>	<u>\$13,375,586</u>	<u>\$1,841,674</u>

Compensated absences typically have been liquidated in the general fund.

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## CITY OF NEWTON, NORTH CAROLINA

### Notes to the Financial Statements June 30, 2004

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#### C. Interfund Balances and Activities

##### Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2004, consist of the following:

From the General Fund to the Water and Wastewater Fund for operations.	\$ 602,400
From the General Fund to Capital Projects Funds for capital project expenditures.	158,200
From the Water and Wastewater Fund to Water and Wastewater Capital Projects for capital project expenditures.	131,000
From the Electric Fund Capital Projects to the Electric Fund for a capital project that was terminated.	<u>969,000</u>
Total	<u><u>\$1,860,600</u></u>

#### V. Jointly Governed Organizations

##### **North Carolina City Electric Agency**

The City, in conjunction with twenty other local governments, is a member of the North Carolina City Electric Agency (Electric Agency). The Electric Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The twenty-one members, which receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement or residual interest. The City's purchase of power for the fiscal year ended June 30, 2004 was \$6,242,573.

##### **Newton-Conover Auditorium Authority**

The Newton-Conover Auditorium Authority was organized and incorporated by the Secretary of State of North Carolina as a nonprofit corporation on December 27, 1990. It is composed of a board of directors including members appointed by the City of Newton (four members); Newton-Conover School Board (three members); and the Catawba County Board of Commissioners (three members). The Authority's responsibilities include the restoration and renovation of the former Newton-Conover High School auditorium for use as a civic auditorium for a wide range of community activities. This community auditorium is available for use by individuals, civic groups, the schools and the local community theater group, "The Green Room".

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## **CITY OF NEWTON, NORTH CAROLINA**

### **Notes to the Financial Statements June 30, 2004**

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#### **VI. Summary Disclosure of Significant Contingencies**

##### **Federal and State Assisted Programs**

The City has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

##### **Electric Deregulation**

In 1997, the General Assembly appointed the Study Commission on the Future of Electric Service in North Carolina ("Study Commission") to examine the cost, adequacy, availability and pricing of electric rates in North Carolina, in order to determine whether legislation is necessary to assure an adequate and reliable source of electricity and economical, fair and equitable rates for all consumers in North Carolina.

The Study Commission submitted its report to the 2000 General Assembly on May 16, 2000, which included a recommendation that fully competitive electric retail service be available to all North Carolina electric consumers by January 1, 2006, but no definitive legislation was proposed. In the time since the Study Commission made its recommendations, there have been several developments outside of North Carolina, particularly the electric power outages occurring in late 2000 and 2001 in California. While the Study Commission has not withdrawn its 2000 recommendations, these outside events make it likely that any action toward electric deregulation in North Carolina will proceed slowly. Also, the Study Commission has not met since 2002.

The City and the Electric Agency are unable to predict the results of the study or the recommendations made by the Study Commission or other interested parties, or whether any recommendations to the General Assembly will be enacted into law.

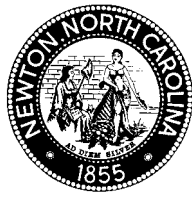
Although the impact of retail electric competition cannot be measured at this time, if such competition becomes applicable to the City, it may cause significant changes in (i) the number of customers, (ii) the costs to the customers, (iii) revenues, (iv) financing costs, and (v) debt ratings.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**This section contains additional information required by generally accepted accounting principles**

- **Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.**
  - **Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.**
  - **Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.**
-



**Schedule of Law Enforcement Officers'  
Special Separation Allowance  
Required Supplementary Information  
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
		Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12/31/98	-0-	\$153,563	\$153,563	0%	\$ 984,420	15.60%
12/31/99	-0-	193,367	193,367	0%	1,086,991	17.79%
12/31/00	-0-	332,747	332,747	0%	1,120,483	29.70%
12/31/01	-0-	385,678	385,678	0%	1,178,694	32.72%
12/31/02	-0-	449,478	449,478	0%	1,202,209	37.39%
12/31/03	-0-	440,374	440,374	0%	1,226,127	35.92%

Schedule of Law Enforcement Officers'  
Special Separation Allowance  
Required Supplementary Information  
Notes to Required Schedule

**Law Enforcement Officers' Special Separation Allowance Schedule of Employer Contributions**

<u>Year Ended June</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2000	\$26,376	2.63%
2001	32,446	2.93%
2002	42,349	3.71%
2003	46,711	3.89%
2004	49,724	4.06%
2005	49,590	3.97%

**Notes to Required Schedules:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation.

Valuation date	12/31/03
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	27 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.9 - 9.8%
Includes inflation at	3.75%
Cost-of-living adjustments	N/A

# **GOVERNMENTAL ACTIVITIES MAJOR FUNDS**

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## **GENERAL FUND**

**The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.**

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**CITY OF NEWTON, NORTH CAROLINA****Exhibit B-1****Page 1 of 8**

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**General Fund**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

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	<u>2004</u>		<b>Variance Positive (Negative)</b>	<b>2003 Actual</b>
	<b><u>Budget</u></b>	<b><u>Actual</u></b>		
<b>Revenues:</b>				
Ad valorem taxes:				
Current year	\$ 3,777,900	\$ 3,617,223	\$ (160,677)	\$ 3,547,874
Prior years	68,150	184,826	116,676	92,932
Interest and penalties	<u>15,000</u>	<u>27,491</u>	<u>12,491</u>	<u>17,730</u>
Total	<u>3,861,050</u>	<u>3,829,540</u>	<u>(31,510)</u>	<u>3,658,535</u>
Other taxes and licenses:				
Local option sales tax	2,650,000	2,409,606	(240,394)	2,135,815
Rural fire district tax	<u>219,600</u>	<u>219,616</u>	<u>16</u>	<u>207,893</u>
Total	<u>2,869,600</u>	<u>2,629,222</u>	<u>(240,378)</u>	<u>2,343,708</u>
Unrestricted intergovernmental revenues:				
Payments in lieu of taxes	233,600	233,600	-	216,600
Utility franchise tax	695,950	646,646	(49,304)	688,756
Beer and wine tax	53,600	55,780	2,180	54,941
Other	<u>59,300</u>	<u>65,653</u>	<u>6,353</u>	<u>161,823</u>
Total	<u>1,042,450</u>	<u>1,001,680</u>	<u>(40,770)</u>	<u>1,122,120</u>
Restricted intergovernmental revenues:				
Federal asset seizure allocation	5,000	-	(5,000)	-
Investment earnings on federal asset seizure allocation	50	141	91	198
Other	-	9,156	9,156	11,463
Powell Bill State street aid allocation	391,250	394,487	3,237	429,916
Investment earnings on Powell Bill allocation	<u>1,500</u>	<u>1,079</u>	<u>(421)</u>	<u>2,192</u>
Total	<u>397,800</u>	<u>404,862</u>	<u>7,062</u>	<u>443,770</u>

cont.

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**CITY OF NEWTON, NORTH CAROLINA****Exhibit B-1****Page 2 of 8**

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**General Fund**  
**Schedule of Revenues, Expenditures, and Changes**  
**In Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

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	<u>2004</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>
<b>Revenues (continued):</b>				
Permits and fees:				
Animal license	\$ 100	\$ 215	\$ 115	\$ 50
Privilege and peddler's license	500	840	340	915
Local franchise - cable t.v.	<u>79,050</u>	<u>81,728</u>	<u>2,678</u>	<u>80,333</u>
Total	<u>79,650</u>	<u>82,783</u>	<u>3,133</u>	<u>81,298</u>
 Sales and services:				
Supportive court services	5,650	9,420	3,770	6,775
Refuse collection fees	350,000	327,145	(22,855)	340,559
Recreation fees and concessions	73,750	55,409	(18,341)	50,460
Other	<u>30,050</u>	<u>17,103</u>	<u>(12,947)</u>	<u>28,119</u>
Total	<u>459,450</u>	<u>409,077</u>	<u>(50,373)</u>	<u>425,913</u>
 Investment earnings	<u>27,400</u>	<u>45,211</u>	<u>17,811</u>	<u>43,327</u>
 Miscellaneous:				
Rentals and sale of property	29,750	72,947	43,197	47,277
Other	<u>98,350</u>	<u>148,398</u>	<u>50,048</u>	<u>114,077</u>
Total	<u>128,100</u>	<u>221,345</u>	<u>93,245</u>	<u>161,353</u>
 Total revenues	<u>8,865,500</u>	<u>8,623,721</u>	<u>(241,779)</u>	<u>8,280,024</u>

cont.

## CITY OF NEWTON, NORTH CAROLINA

Exhibit B-1

Page 3 of 8

**General Fund**  
**Schedule of Revenues, Expenditures, and Changes**  
**In Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

	<u>2004</u>		<u>Variance</u>	<u>2003</u>
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u> <u>(Negative)</u>	<u>Actual</u>
<b>Expenditures:</b>				
Current:				
General government:				
Governing body				
Salaries and employee benefits	\$ 39,550	\$ 39,463	\$ 87	\$ 36,342
Other operating expenditures	28,950	25,759	3,191	11,139
Interdepartmental charges	<u>(35,350)</u>	<u>(35,350)</u>	<u>-</u>	<u>(38,350)</u>
	<u>33,150</u>	<u>29,872</u>	<u>3,278</u>	<u>9,131</u>
Administrative				
Salaries and employee benefits	284,800	283,276	1,524	266,852
Other operating expenditures	114,200	102,861	11,339	89,354
Capital Outlay	850	-	850	34,000
Interdepartmental charges	<u>(186,500)</u>	<u>(186,500)</u>	<u>-</u>	<u>(204,900)</u>
	<u>213,350</u>	<u>199,637</u>	<u>13,713</u>	<u>185,306</u>
Finance				
Salaries and employee benefits	398,400	392,600	5,800	375,542
Other operating expenditures	235,550	209,238	26,312	183,485
Interdepartmental charges	<u>(335,400)</u>	<u>(335,400)</u>	<u>-</u>	<u>(360,300)</u>
	<u>298,550</u>	<u>266,438</u>	<u>32,112</u>	<u>198,728</u>
Purchasing/Warehouse				
Salaries and employee benefits	84,650	83,089	1,561	79,575
Other operating expenditures	20,050	19,043	1,007	10,947
Interdepartmental charges	<u>(78,050)</u>	<u>(78,050)</u>	<u>-</u>	<u>(86,550)</u>
	<u>26,650</u>	<u>24,082</u>	<u>2,568</u>	<u>3,972</u>
Technology/MIS				
Salaries and employee benefits	112,550	109,451	3,099	90,783
Other operating expenditures	155,900	126,599	29,301	140,996
Capital Outlay	13,800	7,198	6,602	8,795
Interdepartmental charges	<u>(113,750)</u>	<u>(113,750)</u>	<u>-</u>	<u>(94,650)</u>
	<u>168,500</u>	<u>129,498</u>	<u>39,002</u>	<u>145,923</u>

cont.

## CITY OF NEWTON, NORTH CAROLINA

Exhibit B-1

Page 4 of 8

**General Fund**  
**Schedule of Revenues, Expenditures, and Changes**  
**In Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)

	2004		Variance	2003
	Budget	Actual	Positive (Negative)	Actual
<b>Expenditures (continued):</b>				
Personnel				
Salaries and employee benefits	\$ 165,100	\$ 163,472	\$ 1,628	\$ 135,055
Other operating expenditures	155,800	142,493	13,307	121,925
Interdepartmental charges	<u>(68,500)</u>	<u>(68,500)</u>	<u>-</u>	<u>(61,850)</u>
	<u>252,400</u>	<u>237,465</u>	<u>14,935</u>	<u>195,130</u>
Planning and code enforcement				
Salaries and employee benefits	222,900	219,301	3,599	201,678
Other operating expenditures	74,900	65,127	9,773	116,017
Capital Outlay	66,400	66,310	90	-
Interdepartmental charges	<u>(189,900)</u>	<u>(189,900)</u>	<u>-</u>	<u>(210,050)</u>
	<u>174,300</u>	<u>160,838</u>	<u>13,462</u>	<u>107,644</u>
Municipal building				
Salaries and employee benefits	18,800	18,666	134	23,556
Other operating expenditures	131,500	108,158	23,342	88,064
Capital Outlay	-	-	-	-
Interdepartmental charges	<u>(65,050)</u>	<u>(65,050)</u>	<u>-</u>	<u>(69,200)</u>
	<u>85,250</u>	<u>61,773</u>	<u>23,477</u>	<u>42,419</u>
Public works administration				
Salaries and employee benefits	182,550	182,212	338	180,340
Other operating expenditures	242,750	128,719	114,031	46,008
Capital Outlay	11,750	23,201	(11,451)	-
Interdepartmental charges	<u>(224,050)</u>	<u>(224,050)</u>	<u>-</u>	<u>(135,000)</u>
	<u>213,000</u>	<u>110,081</u>	<u>102,919</u>	<u>91,348</u>
Garage				
Salaries and employee benefits	92,450	91,878	572	129,560
Other operating expenditures	104,100	52,281	51,819	46,185
Capital Outlay	-	-	-	-
Interdepartmental charges	<u>(37,000)</u>	<u>(37,000)</u>	<u>-</u>	<u>(33,700)</u>
	<u>159,550</u>	<u>107,160</u>	<u>52,390</u>	<u>142,044</u>

cont.

## CITY OF NEWTON, NORTH CAROLINA

Exhibit B-1

Page 5 of 8

**General Fund**  
**Schedule of Revenues, Expenditures, and Changes**  
**In Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

	2004		Variance Positive (Negative)	2003 Actual
	Budget	Actual		
<b>Expenditures (continued):</b>				
Downtown public parking				
Other operating expenditures	<u>\$ 8,000</u>	<u>\$ 6,669</u>	<u>\$ 1,331</u>	<u>\$ 6,081</u>
	<u>8,000</u>	<u>6,669</u>	<u>1,331</u>	<u>6,081</u>
 Total general government	 <u>1,632,700</u>	 <u>1,333,513</u>	 <u>299,187</u>	 <u>1,127,728</u>
 Public safety:				
Police				
Salaries and employee benefits	2,202,650	2,155,604	47,046	1,996,760
Other operating expenditures	512,450	489,504	22,946	391,086
Capital Outlay	127,700	127,670	30	95,342
Interdepartmental charges	(1,900)	(1,900)	-	(1,950)
Fire				
Salaries and employee benefits	782,900	776,385	6,515	711,594
Other operating expenditures	85,850	77,969	7,881	100,890
Capital Outlay	760,400	418,483	341,917	33,440
Interdepartmental charges	(38,900)	(38,900)	-	(39,000)
County fire district				
Salaries and employee benefits	13,400	13,378	22	13,130
Other operating expenditures	128,000	127,365	635	113,627
Capital Outlay	<u>25,550</u>	<u>24,764</u>	<u>786</u>	<u>-</u>
 Total public safety	 <u>4,598,100</u>	 <u>4,170,322</u>	 <u>427,778</u>	 <u>3,414,920</u>

cont.

## CITY OF NEWTON, NORTH CAROLINA

Exhibit B-1

Page 6 of 8

**General Fund**  
**Schedule of Revenues, Expenditures, and Changes**  
**In Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)

	2004			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>
<b>Expenditures (continued):</b>				
Transportation:				
Streets				
Salaries and employee benefits	\$ 278,300	\$ 271,218	\$ 7,082	\$ 88,164
Other operating expenditures	145,150	120,823	24,327	135,972
Capital Outlay	66,400	64,576	1,824	-
Interdepartmental charges	(3,000)	(3,000)	-	-
Powell Bill assistance				
Salaries and employee benefits	118,400	118,303	97	251,765
Other operating expenditures	329,400	307,262	22,138	213,881
Capital Outlay	<u>28,600</u>	<u>28,574</u>	<u>26</u>	<u>22,209</u>
Total transportation	<u>963,250</u>	<u>907,755</u>	<u>55,495</u>	<u>711,991</u>
Environmental protection:				
Sanitation				
Salaries and employee benefits	460,550	457,531	3,019	445,901
Other operating expenditures	364,600	337,997	26,603	353,315
Capital Outlay	<u>181,300</u>	<u>180,625</u>	<u>675</u>	<u>9,286</u>
Total environmental protection	<u>1,006,450</u>	<u>976,154</u>	<u>30,296</u>	<u>808,501</u>
Cultural and recreational:				
Recreation				
Salaries and employee benefits	465,450	463,512	1,938	446,026
Other operating expenditures	204,250	166,495	37,755	122,525
Capital Outlay	30,150	17,500	12,650	31,300
East Newton recreation				
Salaries and employee benefits	19,250	18,809	441	19,217
Other operating expenditures	49,850	39,047	10,803	40,013
Swimming pool				
Salaries and employee benefits	12,200	12,087	113	13,474
Other operating expenditures	36,150	19,255	16,895	17,753

cont.

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**CITY OF NEWTON, NORTH CAROLINA****Exhibit B-1****Page 7 of 8**

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**General Fund**  
**Schedule of Revenues, Expenditures, and Changes**  
**In Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

---

	<u>2004</u>		<b>Variance Positive (Negative)</b>	<b>2003 Actual</b>
	<b><u>Budget</u></b>	<b><u>Actual</u></b>		
<b>Expenditures (continued):</b>				
Parks				
Salaries and employee benefits	\$ 11,950	\$ 9,680	\$ 2,270	\$ 6,121
Other operating expenditures	81,800	48,144	33,656	86,263
Capital Outlay	13,700	18,704	(5,004)	-
Community appearance				
Salaries and employee benefits	127,050	126,924	126	132,879
Other operating expenditures	29,900	18,864	11,036	15,131
Capital Outlay	6,500	-	6,500	99,000
Special appropriations				
Other operating expenditures	528,350	427,323	101,027	347,897
Interdepartmental charges	<u>(363,400)</u>	<u>(363,400)</u>	<u>-</u>	<u>(452,000)</u>
Total cultural and recreational	<u>1,253,150</u>	<u>1,022,945</u>	<u>230,205</u>	<u>925,599</u>
Contingency	<u>500</u>	<u>-</u>	<u>500</u>	<u>-</u>
Debt service:				
Principal retirement	548,150	548,113	37	572,860
Interest and fees	<u>68,900</u>	<u>68,495</u>	<u>405</u>	<u>88,117</u>
Total debt service	<u>617,050</u>	<u>616,608</u>	<u>442</u>	<u>660,977</u>
Total expenditures	<u>10,071,200</u>	<u>9,027,297</u>	<u>1,043,903</u>	<u>7,649,716</u>
Revenues over (under)				
expenditures	<u>(1,205,700)</u>	<u>(403,576)</u>	<u>802,124</u>	<u>630,308</u>

cont.

**General Fund**  
**Schedule of Revenues, Expenditures, and Changes**  
**In Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

	<b>2004</b>		<b>Variance</b>	<b>2003</b>
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative)</b>	<b>Actual</b>
<b>Other Financing Sources (Uses):</b>				
Appropriated fund balance				
- General Fund	\$ 923,200	\$ -	\$ (923,200)	\$ -
- Powell Bill	48,850	-	(48,850)	-
- Federal Asset Seizure	6,500	-	(6,500)	-
Proceeds from borrowing	867,850	867,850	-	292,250
Capital contributions	121,700	121,676	(24)	-
Operating transfers - in (out):				
To Water and Wastewater Fund	(602,400)	(602,400)	-	(602,400)
To Capital Project Funds:				
US 321 Business Sidewalk	-	-	-	(1,841)
General Capital Projects	<u>(160,000)</u>	<u>(158,200)</u>	<u>1,800</u>	<u>-</u>
Total other financing sources (uses)	<u>1,205,700</u>	<u>228,926</u>	<u>(976,774)</u>	<u>(311,991)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (174,650)</u>	<u>\$ (174,650)</u>	<u>\$ 318,317</u>
Fund balances, July 1, as previously reported		\$ 3,925,476		\$ 2,854,291
Prior period adjustment - change in reporting of local option sales tax on the accrual basis and other adjustments		<u>-</u>		<u>748,043</u>
Fund balances, July 1, as restated		3,925,476		3,602,334
Revenues over (under) expenditures		(174,650)		318,317
Increase (decrease) in reserve for inventory		<u>(6,238)</u>		<u>4,825</u>
Fund balances, June 30		<u>\$ 3,744,588</u>		<u>\$ 3,925,476</u>





## **GOVERNMENTAL ACTIVITIES NON-MAJOR FUNDS**

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### **CAPITAL PROJECTS FUNDS**

**Capital Projects Funds account for funds to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.**

***Downtown Facade Improvement Capital Project Fund* -This fund is used to account for improvements in the downtown area.**

***General Capital Projects Fund* - This fund is used to account for financial resources to be used for the acquisition or construction of general capital projects not accounted for by an individual fund.**

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Combining Balance Sheet  
Non-major Governmental Funds  
For the Fiscal Year Ended June 30, 2004

	Downtown Facade Improvement Capital Project Fund	General Capital Project Fund	Total Non-major Governmental Funds
<b><u>Assets</u></b>			
Current assets:			
Cash and investments	\$ 5,348	\$ 379,117	\$ 384,465
Restricted assets:			
Cash and cash equivalents	-	499,987	499,987
Total assets	<u>\$ 5,348</u>	<u>\$ 879,104</u>	<u>\$ 884,452</u>
<b><u>Liabilities and Fund Balances</u></b>			
Accounts payable and other current liabilities	\$ -	\$ 111,463	\$ 111,463
Fund balances:			
Unreserved - undesignated	5,348	767,641	772,989
Total liabilities and fund balances	<u>\$ 5,348</u>	<u>\$ 879,104</u>	<u>\$ 884,452</u>

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-major Governmental Funds**  
**For the Fiscal Year Ended June 30, 2004**

	<b>Downtown Facade Improvement Capital Project Fund</b>	<b>General Capital Project Fund</b>	<b>Total Non-major Governmental Funds</b>
<b>Revenues:</b>			
Grant	\$ -	\$ 250,000	\$ 250,000
Interest	<u>-</u>	<u>1,128</u>	<u>1,128</u>
Total revenues	<u>-</u>	<u>251,128</u>	<u>251,128</u>
<b>Expenditures:</b>			
Economic and physical development	<u>-</u>	<u>241,687</u>	<u>241,687</u>
Total expenditures	<u>-</u>	<u>241,687</u>	<u>241,687</u>
Revenues over (under) expenditures	-	9,441	9,441
Other financing sources (uses):			
Operating transfers in (out):			
General Fund	-	158,200	158,200
Proceeds from borrowing	<u>-</u>	<u>600,000</u>	<u>600,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	-	767,640	767,640
Fund balances, July 1	<u>5,348</u>	<u>-</u>	<u>5,348</u>
Fund balances, June 30	<u>\$ 5,348</u>	<u>\$ 767,641</u>	<u>\$ 772,989</u>

**Downtown Facade Improvement Capital Project Fund  
Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual  
From Inception and for the Fiscal Year Ended June 30, 2004**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>					
Restricted contributions	\$ 9,800	\$ 9,800	\$ -	\$ 9,800	\$ -
<b>Expenditures:</b>					
Professional services	1,000	1,000	-	1,000	-
Grant to property owners	<u>38,800</u>	<u>33,452</u>	<u>-</u>	<u>33,452</u>	<u>5,348</u>
Total expenditures	<u>39,800</u>	<u>34,452</u>	<u>-</u>	<u>34,452</u>	<u>5,348</u>
Revenues over (under) expenditures	(30,000)	(24,652)	-	(24,652)	5,348
Other financing sources (uses) - operating transfers in - General Fund	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 5,348</u>	<u>-</u>	<u>\$ 5,348</u>	<u>\$ 5,348</u>
Fund balance, July 1			<u>5,348</u>		
Fund balance, June 30			<u>\$ 5,348</u>		

**General Capital Projects Funds**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balance - Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2004**

	<u>Project</u>		<u>Actual</u>		<u>Variance</u>
	<u>Authorization</u>	<u>Prior</u>	<u>Current</u>	<u>Total to</u>	<u>Positive</u>
		<u>Years</u>	<u>Year</u>	<u>Date</u>	<u>(Negative)</u>
<b>Revenues:</b>					
Grant	\$ -	\$ -	\$ 250,000	\$ 250,000	\$ 250,000
Interest income	-	-	1,128	1,128	1,128
	-	-	251,128	251,128	251,128
<b>Expenditures:</b>					
Construction	760,000	1,800	241,687	243,487	516,513
Total expenditures	760,000	1,800	241,687	243,487	516,513
Revenues over (under) expenditures	(760,000)	(1,800)	9,441	7,641	767,641
Other financing sources (uses) - operating transfers in - General Fund	160,000	1,800	158,200	160,000	-
Proceeds from borrowing	600,000	-	600,000	600,000	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	767,641	\$ 767,641	\$ 767,641
Fund balance, July 1			-		
Fund balance, June 30			\$ 767,641		



## **BUSINESS - TYPE ACTIVITIES**

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### **ENTERPRISE FUNDS**

**Enterprise Funds** are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the government's governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's governing body has decided that periodic determination of net income is appropriate for accountability purposes.

*Water and Wastewater Fund* - This fund is used to account for the activities associated with the production, distribution and transmission of potable water by the City to its users and for the operation and maintenance of the City's sewer and surface drainage systems.

*Electric Fund* - This fund is used to account for the activities associated with the distribution and transmission of electricity by the City to its users.

### **INTERNAL SERVICE FUND**

**Internal Service Funds** are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis.

*Health Insurance Fund* - This fund is used to account for the payment of medical claims of the City's employees and their covered dependents.

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**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit D-1**

**Page 1 of 2**

**Water and Wastewater Fund  
Schedule of Revenues and Expenditures  
Budget and Actual (Non-GAAP)  
For the Fiscal Year Ended June 30, 2004**

**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

	<b>2004</b>		<b>Variance</b>	
	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Positive</u></b>	<b>2003</b>
<b>Revenues:</b>			<b><u>(Negative)</u></b>	<b><u>Actual</u></b>
Operating revenues:				
Charges for services	\$ 3,670,400	\$ 3,426,658	\$ (243,742)	\$ 3,584,696
Other	<u>246,450</u>	<u>321,308</u>	<u>74,858</u>	<u>320,338</u>
Total operating revenues	<u>3,916,850</u>	<u>3,747,966</u>	<u>(168,884)</u>	<u>3,905,033</u>
Nonoperating revenues:				
Interest earned	<u>25,600</u>	<u>30,712</u>	<u>5,112</u>	<u>37,815</u>
Total nonoperating revenues	<u>25,600</u>	<u>30,712</u>	<u>5,112</u>	<u>37,815</u>
Total revenues	<u>3,942,450</u>	<u>3,778,678</u>	<u>(163,772)</u>	<u>3,942,848</u>
<b>Expenditures:</b>				
Operations	2,247,300	2,067,962	179,338	1,964,254
Maintenance	835,900	727,222	108,678	570,630
Administration	714,850	714,850	-	366,500
Contingency	1,750	-	1,750	-
Budgetary appropriations:				
Appropriated fund balance	(546,600)	-	(546,600)	-
Proceeds from borrowing	(68,000)	(68,000)	-	(2,997,153)
Debt principal	788,050	836,320	(48,270)	775,841
Interest	321,000	407,640	(86,640)	409,591
Increase (decrease) in inventory	-	5,039	(5,039)	(5,746)
Capital outlay	<u>294,650</u>	<u>212,717</u>	<u>81,933</u>	<u>54,522</u>
Total expenditures	<u>4,588,900</u>	<u>4,903,750</u>	<u>(314,850)</u>	<u>1,138,439</u>
Excess of revenues over (under) expenditures	<u>(646,450)</u>	<u>(1,125,071)</u>	<u>(478,621)</u>	<u>2,804,409</u>

cont.

**Water and Wastewater Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

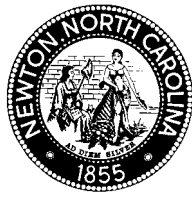
	<b>2004</b>		<b>Variance</b>	<b>2003</b>
	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Positive</u></b>	<b><u>Actual</u></b>
			<b><u>(Negative)</u></b>	
<b>Other Financing Sources (Uses):</b>				
Transfer from (to) General Fund	\$ 602,400	\$ 602,400	\$ -	\$ 602,400
Transfer from (to) Water and Wastewater Capital Projects:				
Water and Wastewater	(131,000)	(131,000)	-	(138,150)
Hwy 321/Hwy 10 Project	-	-	-	(89,508)
Gain (loss) on disposal	-	(106)	(106)	-
Capital contributions	<u>175,050</u>	<u>174,979</u>	<u>(71)</u>	<u>-</u>
Total other financing sources (uses)	<u>646,450</u>	<u>646,273</u>	<u>(177)</u>	<u>374,742</u>
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	<u>\$ -</u>	<u>(478,798)</u>	<u>\$ (478,798)</u>	<u>3,179,151</u>
<b>Reconciliation of Modified to Full Accrual</b>				
<b>Basis - Add (deduct):</b>				
Cost of expenditures which were capitalized		212,717		54,522
Payment of debt principal		836,320		775,841
(Increase) decrease in accrued vacation pay		(5,274)		(4,027)
Increase (decrease) in inventory		5,039		(5,746)
Proceeds from borrowing		(68,000)		(2,997,153)
Contribution of capital		-		37,500
Depreciation		(971,837)		(951,117)
Transfer to Water and Wastewater Capital Projects		<u>131,000</u>		<u>227,658</u>
Income (loss) before operating transfers		<u>\$ (338,834)</u>		<u>\$ 316,629</u>

NOTE: This schedule is included to show budgetary compliance with the legally adopted budget.

**Water and Wastewater Fund Capital Projects**  
**Water and Wastewater Capital Projects**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**From Inception and for the Year Ended June 30, 2004**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Current Year</b>	<b>Total to Date</b>	<b>Variance Positive (Negative)</b>
<b>Revenues:</b>					
Interest	\$ -	\$ -	\$ 14,835	\$ 14,835	\$ 14,835
<b>Expenditures:</b>					
Capital outlay:					
Eastern Loop Highway	-	-	47,527	47,527	(47,527)
Energy United Water Line	300,000	-	345,205	345,205	(45,205)
Wasterwater Treatment Improvement	2,122,600	-	321,596	321,596	1,801,004
Simmons Street Water Line	60,000	10,310	995	11,305	48,695
Water Treatment/Raw Water Intake	4,440,000	202,693	2,273,474	2,476,167	1,963,833
Conover Wastewater Line	<u>331,000</u>	<u>10,485</u>	<u>179,728</u>	<u>190,213</u>	<u>140,787</u>
Total expenditures	<u>7,253,600</u>	<u>223,488</u>	<u>3,168,526</u>	<u>3,392,014</u>	<u>3,861,586</u>
Revenues over (under) expenditures	7,253,600	(223,488)	(3,153,691)	(3,377,179)	3,876,421
<b>Other Financing Sources (Uses):</b>					
Proceeds from borrowing	7,087,600	-	4,700,000	4,700,000	(2,387,600)
Transfer from (to);					
Water and Wastewater Fund	166,000	39,070	131,000	170,070	4,070
Interest expense	<u>-</u>	<u>-</u>	<u>(86,694)</u>	<u>(86,694)</u>	<u>(86,694)</u>
Unexpended revenues and receipts	<u>\$ -</u>	<u>\$ (184,418)</u>	<u>\$ 1,590,615</u>	<u>\$ 1,406,197</u>	<u>\$ 1,406,197</u>

\* Project complete at June 30, 2004.



**Electric Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2004**

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)

	<b>2004</b>		<b>Variance</b>	<b>2003</b>
	<b>Budget</b>	<b>Actual</b>	<b>Positive (Negative)</b>	<b>Actual</b>
<b>Revenues:</b>				
Operating revenues:				
Charges for services	\$ 9,009,050	\$ 8,546,469	\$ (462,581)	\$ 8,250,368
Other	<u>565,350</u>	<u>349,729</u>	<u>(215,621)</u>	<u>311,184</u>
Total operating revenues	<u>9,574,400</u>	<u>8,896,199</u>	<u>(678,202)</u>	<u>8,561,552</u>
Nonoperating revenues:				
Interest earned	11,300	11,453	153	29,907
Sales tax	<u>259,950</u>	<u>245,631</u>	<u>(14,319)</u>	<u>239,664</u>
Total nonoperating revenues	<u>271,250</u>	<u>257,084</u>	<u>(14,166)</u>	<u>269,571</u>
Total revenues	<u>9,845,650</u>	<u>9,153,282</u>	<u>(692,368)</u>	<u>8,831,123</u>
<b>Expenditures:</b>				
Power for resale	6,242,600	6,242,573	27	5,989,877
Operations	1,712,700	1,625,499	87,201	1,434,168
Administration	1,025,900	1,025,900	-	1,421,000
Contingency	1,200	-	1,200	-
Budgetary appropriations:				
Appropriated fund balance	(733,000)	-	(733,000)	-
Proceeds from borrowing	(215,000)	(215,000)	-	(3,202,055)
Debt principal	1,460,850	1,420,091	40,759	2,504,167
Interest	98,200	98,186	14	148,633
Capital outlay	1,206,000	550,789	655,211	94,729
Increase (decrease) in inventory	<u>-</u>	<u>(9,595)</u>	<u>9,595</u>	<u>42,810</u>
Total expenditures	<u>10,799,450</u>	<u>10,738,443</u>	<u>61,007</u>	<u>8,433,329</u>
Excess of revenues over (under) expenditures	<u>(953,800)</u>	<u>(1,585,161)</u>	<u>(631,361)</u>	<u>397,794</u>
<b>Other Financing Sources (Uses):</b>				
Transfer from (to) Electric Capital Projects:				
Electric Capital Projects	953,800	969,000	15,200	(1,072,057)
Gain (loss) on disposal of fixed assets	<u>-</u>	<u>(94,065)</u>	<u>(94,065)</u>	<u>-</u>
Total other financing sources (uses)	<u>953,800</u>	<u>874,935</u>	<u>(78,865)</u>	<u>(1,072,057)</u>
Excess (deficiency) of revenues over (under) expenditures and other uses	<u>\$ -</u>	<u>(710,226)</u>	<u>\$ (710,226)</u>	<u>(674,262)</u>

cont.

**Electric Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

	2004			
			Variance Positive (Negative)	2003 Actual
	Budget	Actual		
Reconciliation of Modified Accrual to Full Accrual Basis - Add (Deduct):				
Cost of expenditures which were capitalized		\$ 550,789		\$ 94,729
Payment of debt principal		1,420,091		2,504,167
Decrease (increase) in accrued vacation		(581)		(2,956)
Increase (decrease) in inventory		(9,595)		42,810
Proceeds from borrowing		(215,000)		(3,202,055)
Depreciation		(407,062)		(447,046)
Transfer (from) to Electric Capital Projects		<u>(969,000)</u>		<u>1,072,057</u>
Income (loss) before operating transfers		<u>\$ (340,585)</u>		<u>\$ (612,557)</u>

NOTE: This schedule is included to show budgetary compliance with the legally adopted budget.

**Electric Fund Capital Projects**  
**Electric Capital Projects**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**From Inception and for the Year Ended June 30, 2004**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>	\$ 60,800	\$ -	\$ -	\$ -	\$ (60,800)
<b>Expenditures:</b>					
Capital outlay:					
Eastern Ridge Subdivision	55,000	11,908	-	11,908	43,092
Eastern Loop Highway	575,000	-	40,494	40,494	534,506
Harvest Street*	-	57,452	(57,452)	-	-
Mt. Olive Electric	<u>32,000</u>	<u>8,212</u>	<u>1,337</u>	<u>9,549</u>	<u>22,451</u>
Total expenditures	<u>662,000</u>	<u>77,572</u>	<u>(15,621)</u>	<u>61,951</u>	<u>600,049</u>
Revenues over (under) expenditures	(601,200)	(77,572)	15,621	(61,951)	539,249
<b>Other Financing Sources (Uses):</b>					
Proceeds from borrowing	499,000	-	-	-	(499,000)
Transfer from Electric Fund	<u>102,200</u>	<u>1,057,793</u>	<u>(969,000)</u>	<u>88,793</u>	<u>(13,407)</u>
Unexpended revenues and receipts	<u>\$ -</u>	<u>\$ 980,221</u>	<u>\$ (953,379)</u>	<u>\$ 26,841</u>	<u>\$ 26,841</u>

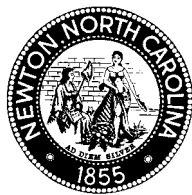
\* Project complete at June 30, 2004.

**Health Insurance Internal Service Fund**  
**Schedule of Revenues and Expenses - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2004**  
**(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)**

	<b>2004</b>			
	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance Positive (Negative)</u></b>	<b><u>2003 Actual</u></b>
<b>Operating Revenues:</b>				
Contributions	<u>\$ 1,099,200</u>	<u>\$ 1,125,885</u>	<u>\$ 26,685</u>	<u>\$ 990,523</u>
Total operating revenues	<u>1,099,200</u>	<u>1,125,885</u>	<u>26,685</u>	<u>990,523</u>
<b>Operating Expenses - Group Insurance:</b>				
Claims paid	638,700	638,662	38	621,269
Claims incurred but not reported	187,800	(5,529)	193,329	38,753
Stop loss insurance fees	173,550	159,708	13,842	119,447
Administrative charges	100,150	99,139	1,011	97,394
Professional services	1,000	966	34	814
Telephone	<u>-</u>	<u>-</u>	<u>-</u>	<u>329</u>
Total operating expenses	<u>1,101,200</u>	<u>892,946</u>	<u>208,254</u>	<u>878,004</u>
Operating income (loss)	(2,000)	232,939	234,939	112,518
Nonoperating revenues:				
Fund balance appropriated	-	-	-	-
Investment earnings	<u>2,000</u>	<u>4,216</u>	<u>2,216</u>	<u>3,151</u>
Net income (loss)	<u>\$ -</u>	<u>\$ 237,155</u>	<u>\$ 237,155</u>	<u>\$ 115,670</u>

Note: This schedule is included to show budgetary compliance with the legally adopted budget.





## **CAPITAL ASSETS**

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**Capital assets are used in the operations of  
Governmental Funds.**

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**Capital Assets Used in the Operation of Governmental Funds  
Comparative Schedule by Source  
June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Governmental Funds Capital Assets:</b>		
Land	\$ 1,449,940	\$ 1,394,640
Buildings and improvements	4,904,289	5,086,798
Equipment	1,299,529	1,231,224
Vehicles	4,710,707	4,234,913
Distribution system	312,552	277,405
Public domain infrastructure	2,640,273	2,419,135
Construction in progress	<u>243,487</u>	<u>1,800</u>
Total governmental funds capital assets	<u><u>\$15,560,777</u></u>	<u><u>\$14,645,915</u></u>
<b>Investments in Governmental Funds Capital Assets by Sources:</b>		
Assets purchased prior to 1984 - 85 from undetermined sources	\$ 3,764,610	\$ 3,764,610
General fund	8,731,486	8,113,611
Special revenue fund	784,944	784,944
Capital projects fund	1,814,541	1,572,854
Donations	<u>465,195</u>	<u>409,896</u>
Total investments in governmental funds capital assets by sources	<u><u>\$15,560,777</u></u>	<u><u>\$14,645,915</u></u>

**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit E-2**  
**Page 1 of 2**

**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule by Function and Activity**  
**June 30, 2004**

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Distributions</u>	<u>Public Domain Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
<b>General Government:</b>								
Governing body	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administration	89,300	-	-	-	-	-	-	89,300
Finance	-	-	13,696	18,109	-	-	-	31,805
Finance - purchasing	-	-	-	13,360	-	-	-	13,360
Finance - technology	-	-	59,876	-	-	-	-	59,876
Human resources	-	-	-	-	-	-	-	-
Public works administration	260,505	743,901	255,102	40,392	-	-	15,801	1,315,700
Public works garage	-	25,307	23,302	12,360	-	-	-	60,969
Municipal building	579,525	1,040,811	28,011	-	-	-	-	1,648,347
Planning and code enforcement	-	-	19,006	25,925	-	-	-	44,931
Total general government	<u>929,330</u>	<u>1,810,019</u>	<u>398,993</u>	<u>110,145</u>	<u>-</u>	<u>-</u>	<u>15,801</u>	<u>3,264,287</u>
<b>Public Safety:</b>								
Police	-	283,938	158,334	988,861	-	-	-	1,431,133
Police - civilians	-	-	-	-	-	-	-	-
Fire	44,710	602,656	38,001	1,374,717	-	-	-	2,060,083
Fire - county	-	313,148	60,661	579,138	-	-	-	952,947
Total public safety	<u>44,710</u>	<u>1,199,742</u>	<u>256,996</u>	<u>2,942,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,444,163</u>
<b>Transportation:</b>								
Public works - streets and drainage	35,106	-	180,305	440,268	143,195	1,994,226	-	2,793,100
Planning and code enforcement - parking	-	-	-	-	-	29,000	-	29,000
Powell bill	17,000	-	84,873	287,763	169,357	617,047	-	1,176,039
Total transportation	<u>52,106</u>	<u>-</u>	<u>265,178</u>	<u>728,030</u>	<u>312,552</u>	<u>2,640,273</u>	<u>-</u>	<u>3,998,140</u>

cont.

**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit E-2, cont.**

**Page 2 of 2**

**Capital Assets Used in the Operation of Governmental Funds  
Schedule by Function and Activity  
June 30, 2004**

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Distributions</u>	<u>Public Domain Infrastructure</u>
<b>Environmental Protection:</b>						
Public works - sanitation	\$ -	\$ -	\$ 44,412	\$ 795,727	\$ -	\$ -
Total environmental protection	-	-	44,412	795,727	-	-
<b>Cultural and Recreational:</b>						
Recreation administration	148,200	797,978	39,210	104,098	-	-
East Newton Recreation Center	31,000	382,999	8,580	-	-	-
Swimming pool	-	10,000	17,850	-	-	-
Parks	66,000	703,550	230,937	29,993	-	-
Community appearance	178,594	-	37,374	-	-	-
Special appropriations	-	-	-	-	-	-
Total cultural and recreational	423,794	1,894,527	333,951	134,090	-	-
Total governmental funds capital assets	<u>\$1,449,940</u>	<u>\$4,904,289</u>	<u>\$1,299,529</u>	<u>\$4,710,707</u>	<u>\$312,552</u>	<u>\$2,640,273</u>

**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule of Changes by Function and Activity**  
**For the Fiscal Year Ended June 30, 2004**

	<b>Governmental Funds Capital Assets July 1, 2003</b>	<b>Additions</b>	<b>Deductions</b>	<b>Governmental Funds Capital Assets June 30, 2004</b>
<b>General Government:</b>				
Governing body	\$ 34,000	\$ 55,300	\$ -	\$ 89,300
Administration	-	-	-	-
Finance	31,805	-	-	31,805
Finance - purchasing	13,360	-	-	13,360
Finance - technology	52,678	7,198	-	59,876
Human resources	-	-	-	-
Public works administration	1,292,500	23,201	-	1,315,701
Public works garage	60,969	-	-	60,969
Municipal building	1,648,347	-	-	1,648,347
Planning and code enforcement	<u>33,921</u>	<u>11,010</u>	<u>-</u>	<u>44,931</u>
Total general government	<u>3,167,578</u>	<u>96,709</u>	<u>-</u>	<u>3,264,287</u>
<b>Public Safety:</b>				
Police	1,370,712	127,670	67,249	1,431,133
Police - Civilians	-	-	-	-
Fire	1,683,270	418,483	41,670	2,060,083
Fire - county	<u>928,183</u>	<u>24,764</u>	<u>-</u>	<u>952,947</u>
Total public safety	<u>3,982,165</u>	<u>570,917</u>	<u>108,919</u>	<u>4,444,163</u>
<b>Transportation:</b>				
Public works - streets and drainage	2,778,263	64,576	49,738	2,793,100
Planning and code enforcement - parking	29,000	-	-	29,000
Powell bill	<u>1,147,465</u>	<u>28,574</u>	<u>-</u>	<u>1,176,039</u>
Total transportation	<u>3,954,727</u>	<u>93,150</u>	<u>49,738</u>	<u>3,998,139</u>
<b>Environmental Protection:</b>				
Public works - sanitation	<u>791,663</u>	<u>180,625</u>	<u>132,149</u>	<u>840,139</u>
Total environmental protection	<u>791,663</u>	<u>180,625</u>	<u>132,149</u>	<u>840,139</u>
<b>Cultural and Recreational:</b>				
Recreation administration	1,066,843	30,123	7,480	1,089,486
East Newton Recreation Center	422,579	57,667	-	480,246
Swimming pool	27,850	-	-	27,850
Parks	1,011,776	18,704	-	1,030,480
Community appearance	220,733	171,398	6,145	385,986
Special appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cultural and recreational	<u>2,749,782</u>	<u>277,892</u>	<u>13,625</u>	<u>3,014,048</u>
Total governmental funds capital assets	<u><u>\$14,645,915</u></u>	<u><u>\$1,219,292</u></u>	<u><u>\$304,431</u></u>	<u><u>\$15,560,777</u></u>

## **OTHER SCHEDULES**

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**This section contains additional information required  
on property taxes and transfers.**

- **Schedule of Ad Valorem Taxes Receivable**
  - **Analysis of Current Tax Levy**
- 
-



Schedule of Ad Valorem Taxes Receivable  
June 30, 2004

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2003</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2004</u>
2003-2004	\$ -	\$3,751,655	\$3,617,223	\$ 134,431
2002-2003	170,537	-	126,448	44,089
2001-2002	75,055	-	27,386	47,669
2000-2001	59,879	-	28,168	31,711
1999-2000	22,627	-	1,493	21,134
1998-1999	21,605	-	1,162	20,443
1997-1998	12,384	-	564	11,821
1996-1997	2,417	-	173	2,244
1995-1996	2,143	-	6	2,137
1994-1995	2,048	-	56	1,992
1993-1994	<u>2,230</u>	<u>-</u>	<u>2,230</u>	<u>-</u>
Total	<u>\$ 370,925</u>	<u>\$3,751,655</u>	<u>\$3,804,910</u>	317,669
Less allowance for uncollectibles				<u>27,733</u>
Balance				<u>\$ 289,936</u>

**Reconcilement with Revenue:**

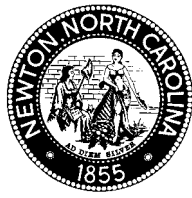
Taxes - Ad valorem - General Fund	\$3,829,540
Taxes written off	2,230
Refunds	631
Interest collected	<u>(27,491)</u>
Total collections and credits	<u>\$3,804,910</u>

**CITY OF NEWTON, NORTH CAROLINA**

**Exhibit F-2**

**Analysis of Current Tax Levy  
June 30, 2004**

	<u>City Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$771,074,870	.44	\$3,392,729	\$3,392,729	\$ -
Motor vehicles taxed at current					
Year rate	76,013,678	.44	343,328	-	343,328
MSD	15,132,756	.15	22,699	22,699	-
Penalties	-		1,725	1,725	-
Total	<u>862,221,304</u>		<u>3,760,482</u>	<u>3,417,154</u>	<u>343,328</u>
Discoveries:					
Current year taxes	1,171,710		5,085	5,085	-
Prior year taxes	217,274		1,031	1,031	-
MSD	21,960		33	33	-
Penalties	-		440	440	-
Total	<u>1,410,944</u>		<u>6,589</u>	<u>6,589</u>	<u>-</u>
Releases:					
Property					
Current year	(672,505)		(2,959)	(2,959)	-
Prior year	(1,105,613)		(5,197)	(5,197)	-
Motor vehicles					
Current year	(1,228,584)		(5,431)	-	(5,431)
Prior year	(346,226)		(1,636)	-	(1,636)
MSD	(21,967)		(33)	(33)	-
Penalties	-		(160)	(160)	-
Total	<u>(3,374,895)</u>		<u>(15,416)</u>	<u>(8,349)</u>	<u>(7,067)</u>
Total property valuation	<u>\$ 860,257,353</u>				
Net levy			3,751,655	3,415,394	336,261
Less uncollected taxes at June 30, 2004			<u>(134,431)</u>	<u>(65,835)</u>	<u>(68,596)</u>
Current year's taxes collected			<u>\$3,617,223</u>	<u>\$3,349,558</u>	<u>\$267,665</u>
Current levy collection percentage			<u>96.42%</u>	<u>98.07%</u>	<u>79.60%</u>

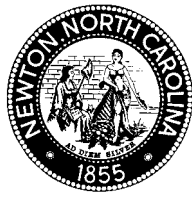


## **STATISTICAL SECTION (Unaudited)**

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**Schedules presented in the Statistical Section differ from financial statements because they usually cover more than one fiscal year and may present non-accounting data. The Statistical Section reflects social and economic data, financial trends and the fiscal capacity of the City.**

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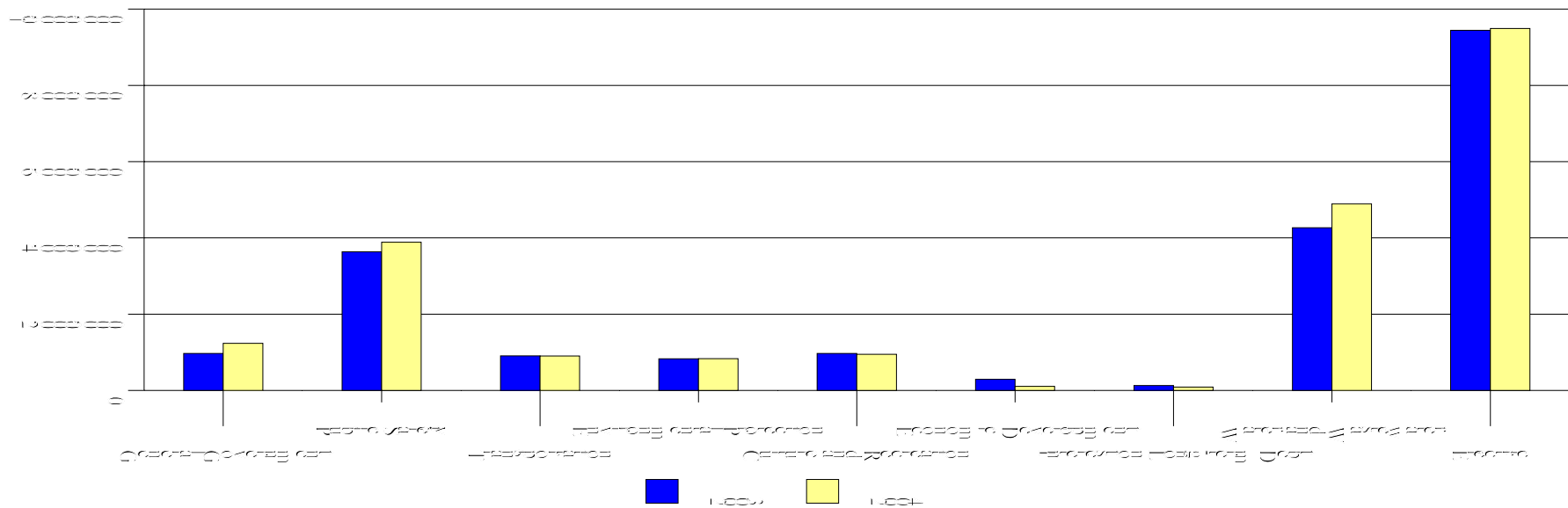


CITY OF NEWTON, NORTH CAROLINA

Table 1

Government-wide Expenses by Function  
Last Ten Fiscal Years  
(Unaudited)

Fiscal Year June 30,	General Government	Public Safety	Transportation	Environmental Protection	Culture and Recreation	Economic Development	Interest on Long-term Debt	Water and Wastewater	Electric	Total
2004	\$1,234,061	\$3,885,286	\$902,604	\$836,748	\$946,786	\$108,202	\$ 90,250	\$4,894,891	\$9,493,867	\$14,388,758
2003	970,935	3,634,412	909,448	832,970	969,275	292,287	129,118	4,266,119	9,443,680	21,448,245



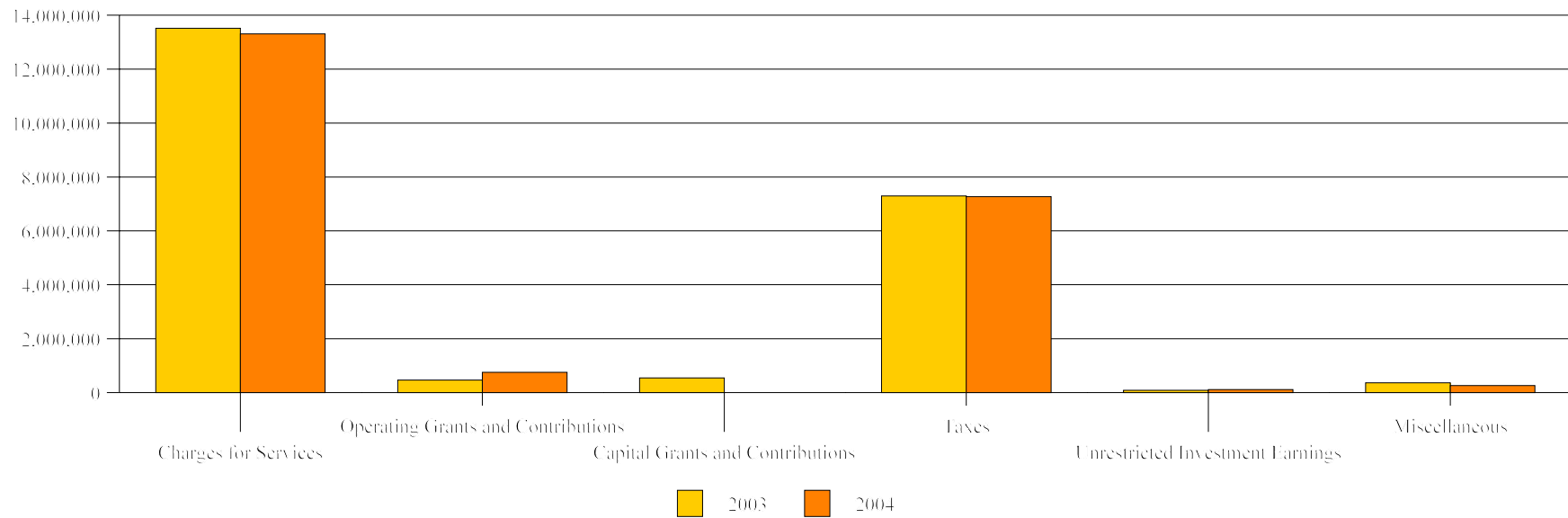
Comparative data will be provided in future years when prior year information is available.

**CITY OF NEWTON, NORTH CAROLINA**

**Table 2**

**Government-wide Revenues  
Last Ten Fiscal Years  
(Unaudited)**

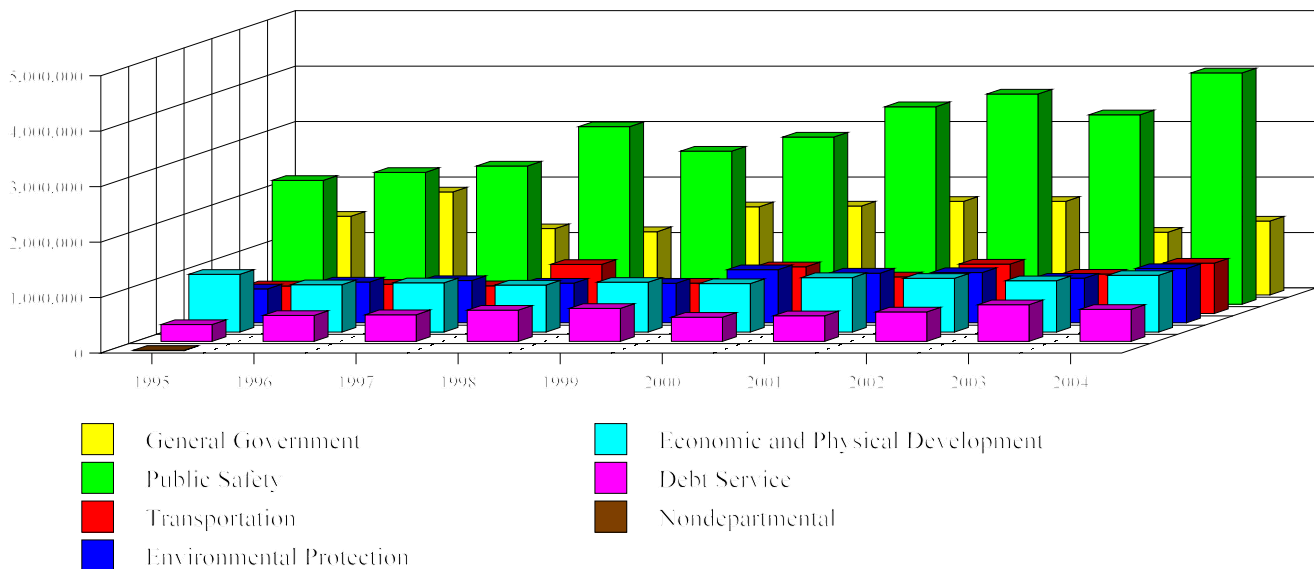
<b>Fiscal Year Ended <u>June 30,</u></b>	<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>	<b><u>Taxes</u></b>	<b>Grants and Contributions Not Restricted to Specific <u>Programs</u></b>	<b><u>Unrestricted Investment Earnings</u></b>	<b><u>Miscellaneous</u></b>	<b><u>Total</u></b>
2004	\$13,517,491	\$468,593	\$546,654	\$7,300,013	\$ -	\$ 88,504	\$366,430	\$22,287,685
2003	13,304,518	752,682	-	7,273,855	-	111,048	260,568	21,702,671



Comparative data will be provided in future years when prior year information is available.

**General Fund Expenditures by Function  
Last Ten Fiscal Years  
(Unaudited)**

<b>Fiscal</b>	<b>Economic and</b>							
<b>Year Ended</b>	<b>General</b>	<b>Public</b>		<b>Environmental</b>	<b>Physical</b>	<b>Debt</b>		
<b>June 30,</b>	<b>Government</b>	<b>Safety</b>	<b>Transportation</b>	<b>Protection</b>	<b>Development</b>	<b>Service</b>	<b>Nondepartmental</b>	<b>Total</b>
2004	\$1,333,513	\$4,170,322	\$907,755	\$976,154	\$1,022,945	\$575,607	\$ -	\$8,986,296
2003	1,130,728	3,414,920	711,991	805,501	925,599	660,977	-	7,649,715
2002	1,688,026	3,790,221	891,614	903,826	971,157	531,796	-	8,776,641
2001	1,687,240	3,562,055	660,139	896,416	983,259	463,872	-	8,252,981
2000	1,603,108	3,015,908	843,089	958,177	873,938	437,072	-	7,731,292
1999	1,589,290	2,761,281	547,504	712,162	900,120	596,046	-	7,106,401
1998	1,140,597	3,200,564	883,344	716,326	848,730	562,032	-	7,351,593
1997	1,196,002	2,493,602	499,743	760,064	889,596	482,120	-	6,321,127
1996	1,856,536	2,377,710	526,439	736,454	853,436	468,843	-	6,819,418
1995	1,420,199	2,233,285	496,101	612,030	1,043,444	302,528	6,550	6,114,137

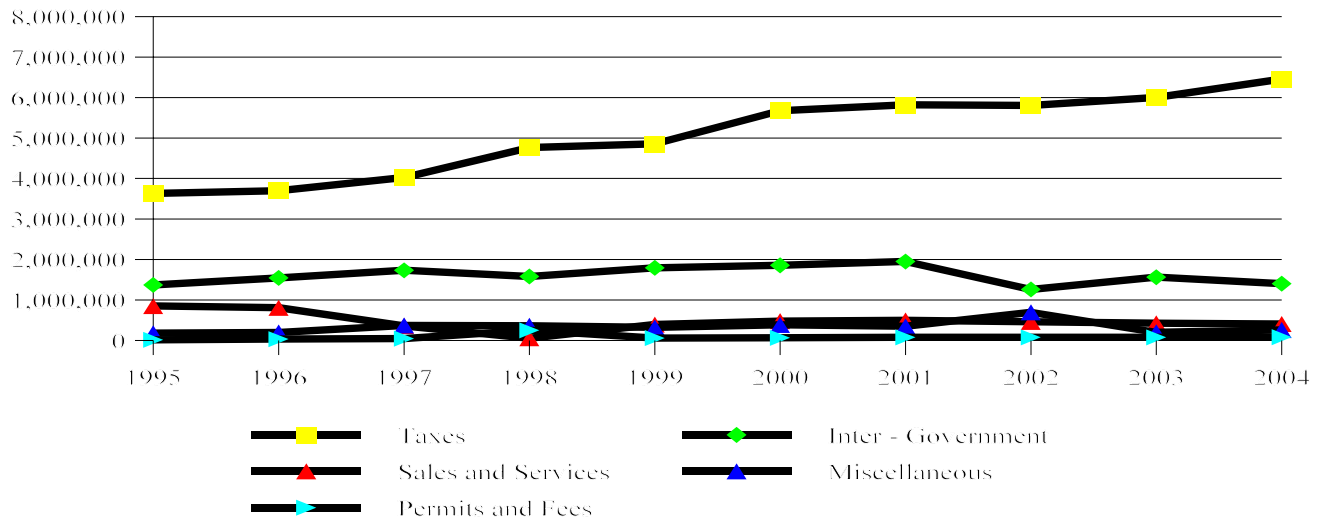




**General Fund Revenues by Source**  
**Last Ten Fiscal Years**  
**(Unaudited)**

<b>Fiscal Year Ended June 30,</b>	<b><u>Taxes</u></b>	<b><u>Inter- Government</u></b>	<b><u>Permits and Fees</u></b>	<b><u>Sales and Services</u></b>	<b><u>Miscellaneous (1)</u></b>	<b><u>Total</u></b>
2004	\$6,458,762	\$1,406,542	\$82,783	\$409,077	\$261,649	\$8,618,814
2003	6,002,243	1,565,890	81,298	425,913	204,680	8,280,024
2002	5,808,520	1,264,185	78,521	464,119	700,126	8,315,472
2001	5,822,108	1,950,598	80,322	498,049	351,379	8,702,457
2000	5,672,682	1,859,491	66,915	480,068	384,687	8,463,844
1999	4,857,020	1,795,960	63,170	396,372	322,868	7,435,390
1998	4,767,488	1,585,202	55,842	365,326	251,846	7,025,704
1997	4,030,576	1,734,834	50,064	361,001	374,268	6,550,743
1996	3,700,656	1,549,164	35,680	810,627	199,903	6,296,030
1995	3,632,223	1,374,920	18,663	854,670	181,632	6,062,108

(1) Includes investment earnings and other revenues.



**General Fund Tax Revenues by Source (1)**  
**Last Ten Fiscal Years**  
**(Unaudited)**

<b>Fiscal Year Ended June 30,</b>	<b>Ad Valorem Taxes (2)</b>	<b>Sales Taxes</b>	<b>Intangibles Taxes Reimbursement</b>	<b>Other Taxes</b>	<b>Total</b>
2004	\$3,829,540	\$2,409,606	\$ -	\$219,616	\$6,458,762
2003	3,658,535	2,135,815	-	207,893	6,002,243
2002	3,581,664	1,925,725	116,001	185,130	5,808,520
2001	3,511,413	2,064,249	116,582	129,864	5,822,108
2000	3,437,581	2,009,034	129,734	96,334	5,672,683
1999	3,129,682	1,507,818	131,920	87,600	4,857,020
1998	3,173,529	1,413,273	112,411	68,275	4,767,488
1997	2,482,035	1,375,839	108,917	63,785	4,030,576
1996	2,208,115	1,305,693	117,988	68,860	3,700,656
1995	2,176,104	1,263,005	130,304	62,810	3,632,223

(1) General Fund only.

(2) Includes interest and penalties.

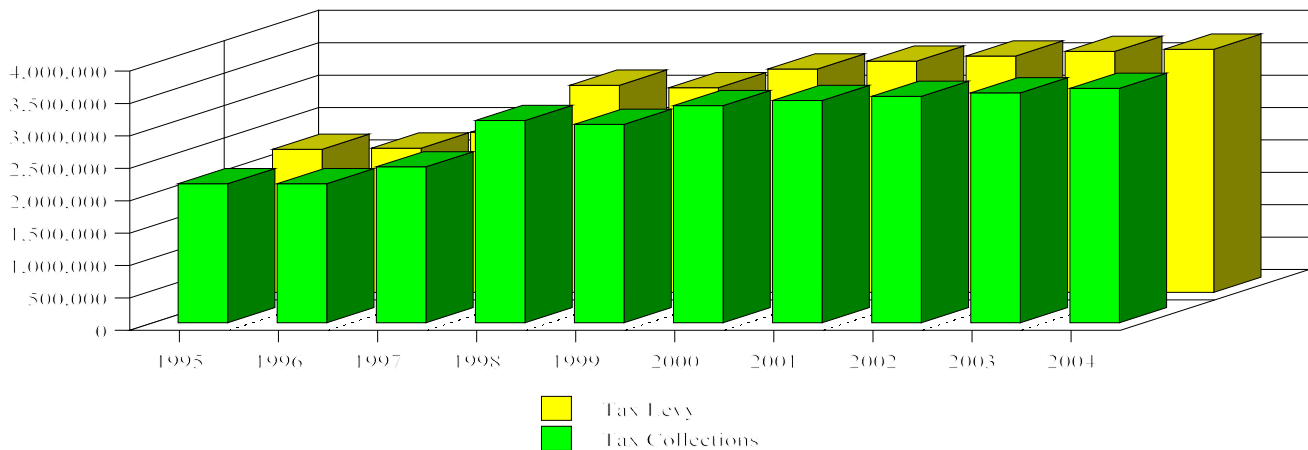


CITY OF NEWTON, NORTH CAROLINA

Table 6

Property Tax Levies and Collections and Credits  
Last Ten Fiscal Years  
(Unaudited)

							Total Tax	Outstanding	
							Collections	Delinquent	
							as a	Taxes as a	
Fiscal	Tax	Current	Current	Percent of	Delinquent	Total	Percent	Outstanding	
Year	Year	Tax	Tax	Levy	Tax	Tax	of Current	Delinquent	
		Levy	Collections	Collected	Collections	Collections	Tax Levy	Taxes	
2003-2004	2003	\$3,751,655	\$3,617,223	96.42	\$187,687	\$3,804,910	101.42	\$317,669	8.47
2002-2003	2002	3,718,411	3,547,874	95.41	97,407	3,645,282	98.03	370,925	9.98
2001-2002	2001	3,646,444	3,492,863	95.79	80,592	3,573,455	98.00	297,795	8.17
2000-2001	2000	3,568,203	3,429,275	96.11	88,583	3,517,858	98.59	224,807	6.30
1999-2000	1999	3,446,185	3,349,761	97.20	73,965	3,423,726	99.35	174,462	5.06
1998-1999	1998	3,157,409	3,060,831	96.94	67,792	3,128,623	99.08	152,003	4.81
1997-1998	1997	3,195,705	3,120,088	97.63	54,823	3,174,911	99.35	123,217	3.86
1996-1997	1996	2,469,862	2,406,346	97.43	71,220	2,477,566	100.31	102,423	4.15
1995-1996	1995	2,225,549	2,145,127	96.39	72,388	2,217,515	99.64	110,132	4.95
1994-1995	1994	2,206,818	2,146,248	97.26	28,362	2,174,610	98.54	101,878	40.62



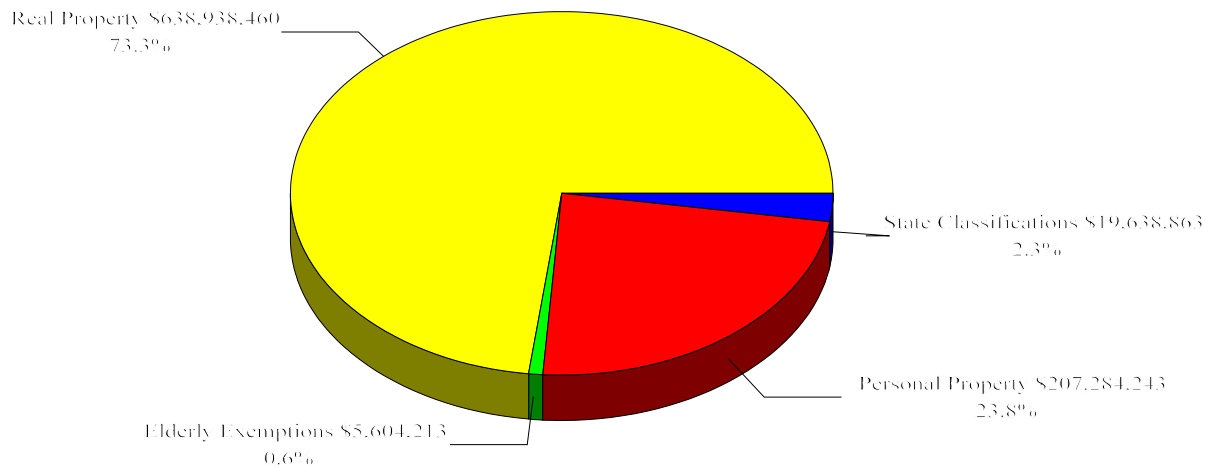
Source: City of Newton Finance Department

CITY OF NEWTON, NORTH CAROLINA

Table 7

Assessed Valuation of Property  
Last Ten Fiscal Years  
(Unaudited)

<b>Fiscal Year Ended June 30,</b>	<b><u>Real Property</u></b>	<b><u>Personal Property</u></b>	<b><u>State Classifications</u></b>	<b><u>Less Elderly Exemptions</u></b>	<b><u>Total</u></b>
2004	\$638,938,460	\$207,284,243	\$19,638,863	\$5,604,213	\$860,257,353
2003	567,468,126	217,946,853	19,232,429	5,203,741	799,443,667
2002	550,863,867	215,025,057	21,128,333	3,524,030	783,493,227
2001	540,042,867	210,526,662	19,299,454	3,429,630	766,439,353
2000	524,605,828	197,332,486	19,375,934	3,210,204	738,104,045
1999	393,057,917	188,302,558	14,741,548	3,121,837	592,980,186
1998	385,954,156	203,396,570	15,423,427	3,274,368	601,499,785
1997	380,174,927	188,630,649	14,833,074	2,670,528	580,968,122
1996	371,173,825	181,059,203	13,905,354	2,890,158	563,248,224
1995	367,829,788	180,492,153	13,559,582	2,834,200	559,047,323



Source: City of Newton Finance Department

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**CITY OF NEWTON, NORTH CAROLINA****Table 8****Property Tax Levies and Rates - Direct and Overlapping Governments  
Last Ten Fiscal Years  
(Unaudited)**

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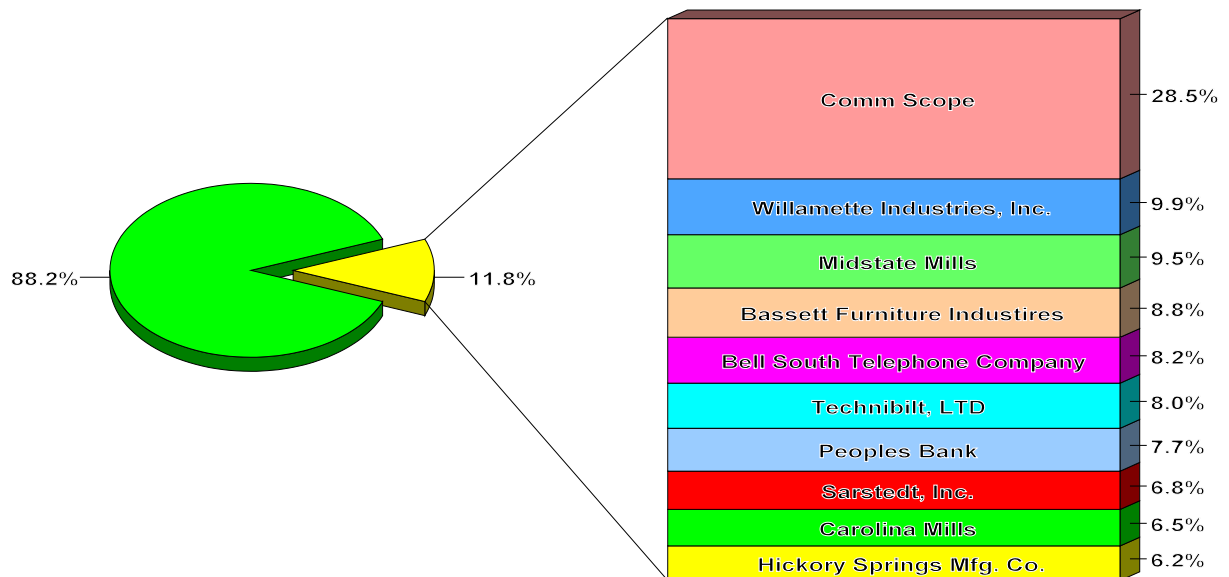
	<u>City of Newton</u>		<u>Catawba County (1)</u>	
	<u>Tax Levies</u>	<u>Tax Rates (2)</u>	<u>Tax Levies</u>	<u>Tax Rates (2)</u>
2003-2004	\$3,751,655	\$.44	\$60,740,470	\$.480
2002-2003	3,718,411	.47	57,266,757	.495
2001-2002	3,646,444	.47	55,392,904	.495
2000-2001	3,568,203	.47	53,320,741	.495
1999-2000	3,446,185	.47	51,194,773	.495
1998-1999	3,157,409	.54	42,661,784	.55
1997-1998	3,195,705	.54	38,870,411	.55
1996-1997	2,469,862	.43	37,887,197	.52
1995-1996	2,225,549	.40	33,664,697	.52
1994-1995	2,206,818	.40	29,570,920	.47

(1) Source: Catawba County

(2) Per \$100.00 of assessed valuation

**Principal Taxpayers  
For the Year Ended June 30, 2004  
(Unaudited)**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Percentage of City Tax Levy</u>
Comm Scope, Inc.	Fiber	\$ 32,620,456	\$143,530	3.83%
Willamette Industries, Inc.	Paper Products	11,396,931	50,147	1.34%
Midstate Mills	Flour Mill	10,830,382	47,654	1.27%
Bassett Furniture Industries	Furniture Mfg.	10,075,840	44,334	1.18%
Bell South Telephone Company	Utility	9,342,214	41,106	1.10%
Technibilt, Ltd.	Mfg of Shopping Carts	9,199,500	40,478	1.08%
Peoples Bank	Banking Services	8,776,139	38,615	1.03%
Sarstedt, Inc.	Pharmaceutical Plastic	7,820,220	34,409	0.92%
Carolina Mills	Textiles	7,446,283	32,764	0.87%
Hickory Springs Mfg. Co.	Foam Manufacturer	<u>7,057,462</u>	<u>31,053</u>	<u>0.83%</u>
Total assessed valuation of top ten taxpayers		<u>\$114,565,427</u>	<u>\$504,088</u>	<u>13.44%</u>



Source: City of Newton Finance Department

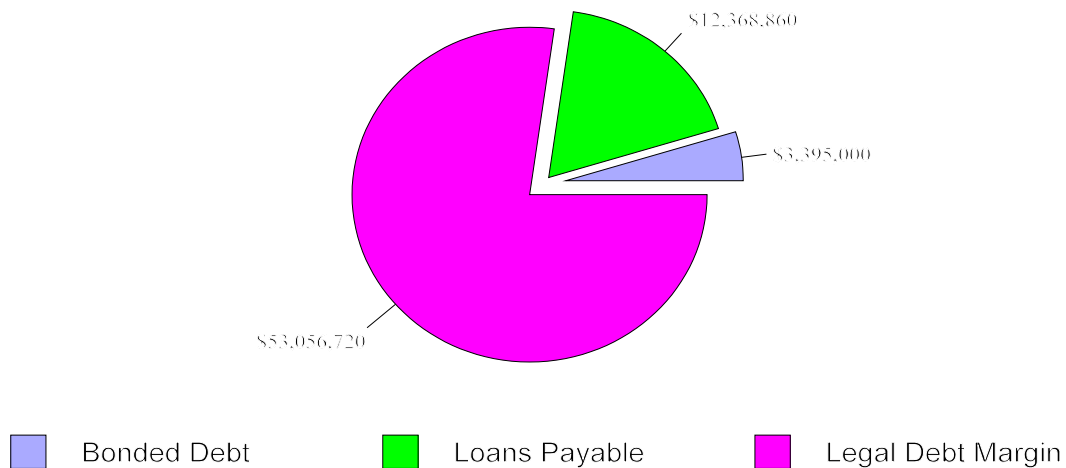
**Computation of Legal Debt Margin**  
**June 30, 2004**  
**(Unaudited)**

**Assessed Valuation:**

Total value	\$865,861,566
Less elderly exemptions	<u>5,604,213</u>
Total assessed value	<u><u>\$860,257,353</u></u>

**Legal Debt Margin:**

Debt limitation - 8 percent of total assessed value	\$68,820,588
Debt application to limitation:	
Bonded debt	\$ 3,395,000
Loans payable	<u>12,368,863</u>
Total debt applicable to limitation	<u>15,763,863</u>
Legal debt margin	<u><u>\$ 53,056,725</u></u>

**Legal Debt Margin**

**Ratio of Net General Obligation Bonded Debt to Assessed Value and  
Net General Obligation Bonded Debt Per Capita  
Last Ten Fiscal Years  
(Unaudited)**

<b>Fiscal</b>				<b>Debt</b>	<b>Debt</b>		<b>Ratio of</b>	
<b>Year Ended</b>		<b>Assessed</b>	<b>Gross</b>	<b>Service</b>	<b>Payable</b>	<b>Net</b>	<b>Net Bonded</b>	<b>Net</b>
<b><u>June 30,</u></b>	<b><u>Population (1)</u></b>	<b><u>Value</u></b>	<b><u>Bonded</u></b>	<b><u>Monies</u></b>	<b><u>Enterprise</u></b>	<b><u>Bonded</u></b>	<b><u>Debt to</u></b>	<b><u>Bonded</u></b>
			<b><u>Debt (2)</u></b>	<b><u>Available</u></b>	<b><u>Revenues</u></b>	<b><u>Debt</u></b>	<b><u>Value</u></b>	<b><u>Debt per</u></b>
								<b><u>Capita</u></b>
2004	12,939	\$860,257,353	\$3,395,000	\$ -	\$3,166,296	\$228,704	.03	18
2003	12,988	799,443,667	3,915,000	-	3,636,270	278,730	.03	21
2002	12,978	783,493,227	4,440,000	-	4,110,610	329,390	.04	25
2001	12,560	766,439,353	4,980,000	-	4,598,428	381,572	.05	30
2000	12,382	738,104,045	5,525,000	-	5,090,611	434,389	.06	35
1999	12,294	592,980,186	6,150,000	-	5,653,789	496,211	.08	40
1998	12,079	601,499,785	6,450,000	-	5,888,731	561,269	.09	46
1997	11,731	580,968,122	7,080,000	-	6,436,055	643,945	.11	55
1996	12,005	563,248,224	7,675,000	-	6,971,830	703,170	.12	59
1995	11,800	559,047,323	8,270,000	-	7,526,619	743,381	.13	63

(1) Source: North Carolina Office of State Planning

(2) Includes all general obligation debt.



**Ratio of Annual Debt Service Expenditures for  
General Obligation Bonded  
Debt to Total General Governmental Expenditures  
Last Ten Fiscal Years  
(Unaudited)**

<b>Fiscal Year June 30,</b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Debt Service (1)</u></b>	<b><u>Total General Governmental Expenditures (2)</u></b>	<b>Ratio Debt Service to Total General Governmental Expenditures</b>
2004	\$50,026	\$15,773	\$65,799	\$8,986,296	0.73%
2003	50,659	17,029	67,688	7,649,715	0.88%
2002	50,660	14,952	65,612	9,011,096	0.73%
2001	52,817	19,941	72,758	8,660,669	0.84%
2000	61,822	22,221	84,043	7,731,292	1.09%
1999	81,409	32,891	114,300	7,106,402	1.61%
1998	82,676	34,516	117,192	7,351,593	1.59
1997	59,225	37,718	96,943	6,321,127	1.53
1996	40,210	40,300	80,510	6,819,418	1.18
1995	40,258	42,270	82,528	6,114,137	1.35

(1) General obligation bonds reported in the enterprise funds have been excluded.

(2) Includes the General Fund only.

**Computation of Direct and Overlapping Bonded Debt**  
**- General Obligation Bonds**  
**June 30, 2004**  
**(Unaudited)**

	<b>Net General Obligation Bonded Debt Outstanding</b>	<b>Percentage Applicable to City of Newton (3)</b>	<b>Amount Applicable to City of Newton</b>
Direct - City of Newton (1)	\$ 228,704	100.00%	\$ 228,704
Overlapping - Catawba County (2)	<u>55,880,000</u>	6.79%	<u>3,793,680</u>
Total	<u><u>\$56,108,704</u></u>		<u><u>\$4,022,384</u></u>

- Source:
- (1) Excluding general obligation bonds reported in the enterprise funds.
  - (2) Provided by Catawba County.
  - (3) Determined by ratio of assessed valuation of property subject to taxation in Catawba County (\$12,671,384,340) and City of Newton (\$860,257,353).

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**CITY OF NEWTON, NORTH CAROLINA****Table 14****Demographic Statistics  
Last Ten Fiscal Years  
(Unaudited)**

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<b>Fiscal Year Ended <u>June 30,</u></b>	<b>Population <u>Estimate (1)</u></b>	<b>Catawba County Per Capita <u>Income (2)</u></b>	<b>Catawba County Unemployment <u>Rate (2)</u></b>	<b>North Carolina Unemployment <u>Rate (2)</u></b>	<b>Unemployment <u>Rate (2)</u></b>
2004	12,939	\$27,308	7.2%	5.5%	5.6%
2003	12,988	27,625	9.4%	6.6%	6.4%
2002	12,616	27,937	9.4%	6.7%	5.9%
2001	12,560	28,253	6.4%	4.9%	4.5%
2000	12,380	27,617	2.1%	3.4%	4.0%
1999	12,294	26,282	1.8%	3.0%	4.5%
1998	12,079	24,602	2.7%	3.4%	4.5%
1997	11,731	23,439	3.4%	4.0%	5.0%
1996	12,005	23,480	4.3%	4.6%	5.5%
1995	11,800	22,672	4.6%	4.7%	5.8%

Sources: (1) North Carolina Office of State Planning

(2) Employment Security Commission, Bureau of Labor Statistics

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**CITY OF NEWTON, NORTH CAROLINA****Table 15****Property Value, Construction and Bank Deposits  
Last Ten Fiscal Years  
(Unaudited)**

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<b>Fiscal Year Ended <u>June 30,</u></b>	<b><u>Property Value (1)</u></b>	<b><u>Construction (2)</u></b>	<b><u>Bank Deposits (3)</u></b>	<b><u>Countywide Deposits (4)</u></b>
2004	\$860,257,353	\$15,563,812	\$16,451,761	\$ -
2003	799,443,667	21,558,045	14,114,352	2,227,135,000
2002	783,493,227	10,534,606	14,037,040	2,137,694,000
2001	766,439,353	14,129,179	18,612,279	1,985,835,000
2000	738,104,045	16,914,714	18,036,026	1,818,514,000
1999	592,980,186	17,577,937	17,927,752	1,692,209,000
1998	601,499,785	12,579,888	17,367,165	1,641,549,000
1997	580,968,122	15,786,215	18,614,942	1,584,000,000
1996	563,248,224	12,181,279	21,660,101	1,509,745,000
1995	559,047,323	20,578,587	17,313,665	1,465,517,000

Sources: (1) City tax records.

(2) City Planning Department.

(3) City of Newton deposits only.

(4) Countywide deposits per FDIC. Countywide deposits data not available for 2004.

**Miscellaneous Statistics**  
**June 30, 2004**  
**(Unaudited)**

Population	12,939
Date of incorporation	1855
Form of government	Council/Manager
Area	12.98 square miles
Miles of paved streets	72.50
Employees:	
Full-time	168
Part-time	5
Seasonal	17
Reserve	17
Fire protection:	
Number of stations	3
Number of firemen and officers	16
Number of volunteer firemen	31
Police protection:	
Number of stations	2
Number of policemen and officers	35
Electric department:	
Number of consumers	4,330
Average daily usage	316,204 kwh
Miles of distribution lines	110
Water department:	
Number of consumers	5,735
Average daily consumption	1.34 MGD
Miles of water mains	179
Sewers:	
Number of consumers	4,507
Average daily inflow	1.74 MGD
Miles of sewer lines	115
Culture and recreation:	
Number of recreation centers	2
Number of parks	5
Park acreage	63.5
Number of swimming pools	1
Number of tennis courts	8
Number of cemeteries	3

## **COMPLIANCE SECTION**

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**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

**Report on Compliance with Requirements Applicable  
to each Major State Program and Internal Control  
Over Compliance in Accordance with Applicable Sections  
of OMB Circular A-133 and the State Single Audit  
Implementation Act**

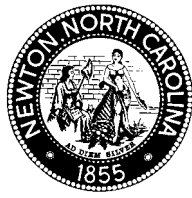
**Schedule of Findings and Questioned Costs**

**Corrective Action Plan**

**Summary Schedule of Prior Year Audit Findings**

**Schedule of Expenditures of Federal and State Awards**

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**Lowdermilk Church & Co., L.L.P.**  
*Certified Public Accountants*

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121 N. Sterling Street  
Morganton, North Carolina 28655  
Phone: (828) 433-1226  
Fax: (828) 433-1230

**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

To the Honorable Mayor and  
Members of the City Council  
City of Newton, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Newton, North Carolina, as of and for the year ended June 30, 2004, which collectively comprises the City of Newton's basic financial statements, and have issued our report thereon dated October 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Newton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Newton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Newton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the City Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

October 19, 2004

**Lowdermilk Church & Co., L.L.P.**  
*Certified Public Accountants*

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121 N. Sterling Street  
Morganton, North Carolina 28655  
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Fax: (828) 433-1230

**Report on Compliance with Requirements Applicable to each Major State Program  
and Internal Control Over Compliance in Accordance with Applicable Sections of OMB  
Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and  
Members of the City Council  
City of Newton, North Carolina

Compliance

We have audited the compliance of the City of Newton, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2004. The City of Newton's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Newton's management. Our responsibility is to express an opinion on the City of Newton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Newton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Newton's compliance with those requirements.

In our opinion, the City of Newton complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2004.

### Internal Control Over Compliance

The management of the City of Newton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Newton's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State Program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the City Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

October 19, 2004

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004**

**Section I. Summary of Auditors' Results**Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes        X  no
- Reportable condition(s) identified that are not considered to be material weaknesses   X  yes      \_\_\_\_\_none reported

Noncompliance material to financial statements noted \_\_\_\_\_yes        X  noFederal Awards

None.

State Awards

Internal control over major State programs:

- Material weakness(es) identified: \_\_\_\_\_yes        X  no
- Reportable condition(s) identified that are not considered to be material weaknesses \_\_\_\_\_yes        X  none reported

Noncompliance material to State awards \_\_\_\_\_yes        X  no

Type of auditors' report issued on compliance for major State programs: Unqualified

Any audit findings disclosed that are required

to be reported in accordance with the State

Single Audit Implementation Act \_\_\_\_\_yes        X  no

Identification of major State programs:

Program Name

Powell Bill

cont.

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004

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**Section II. Financial Statement Findings**

REPORTABLE CONDITION

**Finding: 2004-1**

Criteria:	Employee travel documentation should be made in accordance with the adopted policy.
Condition:	Several travel expenditures examined did not have the required documentation.
Effect:	Disbursements were made for travel that could not be substantiated.
Cause:	The City was not following its adopted travel policy.
Recommendation:	The City should develop procedures to ensure that travel documentation is being obtained to support the cost incurred.
Management Response:	The City agrees with the finding. Procedures will be implemented to ensure that required documentation is being obtained.

**Section III. Federal Award Findings and Questioned Costs**

None reported.

**Section IV. State Award Findings and Questioned Costs**

None reported.

**Corrective Action Plan  
For the Year Ended June 30, 2004**

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**Section II. Financial Statement Findings**

**Finding: 2004-1**

Name of Contact Person: James A. Baker, Director of Finance

Corrective Action: Procedures will be implemented to ensure that required documentation is being obtained.

Proposed Completion Date: The City will implement the above procedure immediately.

**Section III. Federal Award Findings and Questioned Costs**

None reported.

**Section IV. State Award Findings and Questioned Costs**

None reported.

**Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2004**

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**Finding: 2003-1**

Status: Corrected

**Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2004**

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Federal (Direct and Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<b><u>Federal Grants:</u></b>					
<b>Cash Programs</b>					
<u>U.S. Department of Justice</u>					
Local Law Enforcement Block Grant	16.592		\$ 8,093	\$ -	\$ -
Drug Control System Improvement	16.579		20,139	-	-
<u>Federal Emergency Management Agency</u>					
Passed-through N.C. Division of					
Emergency Management:					
Public Assistance Grant	83.544	XXXX	<u>34,998</u>	<u>-</u>	<u>-</u>
Total assistance - federal programs			<u>63,230</u>	<u>-</u>	<u>-</u>
<b><u>State Grants:</u></b>					
<b>Cash Assistance</b>					
<u>N.C. Department of Transportation</u>					
Powell Bill		XXXX	-	450,666	-
<u>N.C. Department of Environmental and Natural Resources</u>					
Parks and Recreation Trust Fund		XXXX	<u>-</u>	<u>57,667</u>	<u>-</u>
Total assistance - State programs			<u>-</u>	<u>-</u>	<u>-</u>
Total assistance			<u>\$ 63,230</u>	<u>\$508,333</u>	<u>\$ -</u>

Note to the Schedule of Expenditures of Federal and State Financial Awards:

- The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the City of Newton and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.